

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of St. Clair Shores, Michigan</u>	County Macomb
Audit Date June 30, 2005	Opinion Date September 26, 2005	Date Accountant Report Submitted To State: December 19, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 10 South Main Street, Suite 200	City Mount Clemens	State MI	ZIP 48043
Accountant Signature 			

City of St. Clair Shores, Michigan

**Comprehensive Annual Financial Report
with Supplemental Information
Prepared by the Department of Finance
For the Fiscal Year Ended June 30, 2005**

City of St. Clair Shores, Michigan

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City of St. Clair Shores, Michigan

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City of St. Clair Shores

Finance Department

27600 Jefferson Circle Drive St. Clair Shores, MI 48081-2093
Phone: (586) 447-3322 Fax: (586) 445-5245 www.scsmi.net

Mayor

Robert A. Hison

Mayor Pro-Tem

Robert G. Soulliere

City Manager

Kenneth R. Podolski

**Council Members:**

Ronald J. Frederick

Beverly A. McFadyen

Mark J. Moffitt

Erin A. Stahl

Kip Walby

September 26, 2005

To the Honorable Mayor, Members of the City Council,
and Citizens of the City of St. Clair Shores:

The Comprehensive Annual Financial Report (CAFR) of the City of St. Clair Shores for the year ended June 30, 2005 is hereby submitted. The basic financial statements as defined in the table of contents were audited by Plante & Moran, PLLC, certified public accountants. Their unqualified opinion follows this letter of transmittal. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the governmental activities, business-type activities, the various funds, and component units of the City of St. Clair Shores. All disclosures necessary to enable the reader to gain an understanding of the City of St. Clair Shores activities have been included. The Comprehensive Annual Financial Report is presented in four sections: Introductory, Financial, Statistical and Continuing Disclosure. The introductory section, which is unaudited, includes this letter of transmittal, an organizational chart and a list of the City of St. Clair Shores' principal appointed officials. The financial section includes: the management's discussion and analysis; the basic financial statements, which are comprised of the entity-wide financial statements, fund financial statements and schedules, as well as the independent auditor's report on these financial statements and schedules; and the required and other supplemental information on the budgetary comparison schedules, pension plans, and combining financial statements for non-major funds. The statistical section, also unaudited, includes selected financial and demographic information, generally presented on a multi-year basis. Finally, the unaudited continuing disclosure section contains information required by the Securities and Exchange Commission Rule 15c2-12 requiring that issuers of municipal securities undertake in a written contract for the benefit of the holders of such securities to provide certain annual financial information to various information repositories.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of St. Clair Shores' MD&A can be found immediately following the report of the independent auditor.

The Reporting Entity and Services Provided

The City of St. Clair Shores has defined its financial reporting entity in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). The City of St. Clair Shores includes all the funds, agencies, boards, commissions, and authorities that are controlled by or dependent on the mayor and City Council. Based upon these criteria, the Economic Development Corporation, the Tax Increment Finance Authority, and the Brownfield Redevelopment Authority have been included in this report.

The City of St. Clair Shores provides a full range of services including police and fire protection; sanitation services; construction and maintenance of highways, streets, and infrastructure (through other agencies); planning and zoning; library services; recreational activities and cultural events. Additionally, water and sewer services are provided under an Enterprise Fund concept, with user charges set by the City Council to ensure adequate coverage of operating expenses and payments on outstanding debt.

Local Economy and Governmental Structure

The City of St. Clair Shores is located in the southeast corner of Macomb County, north of the City of Detroit, in southeastern Michigan on Lake St. Clair. The City contains approximately 11.6 square miles with a population of 63,096 persons as reported by the U.S. Bureau of the Census for calendar year 2000. The City currently has a 7.6 percent unemployment rate as compared to a statewide rate of 6.9 percent and a national average of 5.2 percent.

Incorporated in 1951, the City operates under a Council/Manager form of government. Voters elect a mayor and a six-member council in staggered four-year terms. The mayor and council are the legislative body of the City, responsible for adoption and implementation of ordinances, policies, budget guidelines and upholding the Charter. The City Manager administers the day-to-day operations of the City and makes recommendations to City Council.

The City of St. Clair Shores has grown over the years to a point where less than 1 percent of its total land area is vacant. Most growth taking place in Macomb County occurs to the northwest; the I-696 and I-94 freeways running through St. Clair Shores provide a corridor of opportunity for redevelopment and enhancement of existing development.

There is no question the next fiscal year will be challenging as expenditure increases are expected to exceed revenues. The current five-year economic projection shows revenues increasing 3 percent to 4 percent while expenditures will increase at 3 percent to 5 percent unless changes are made. It is management's goal to maintain high quality services during times of economic uncertainty. The City has adopted prudent and conservative financial policies, which will help guide us through the upcoming years. The City has a strong property tax base and management believes it can meet the challenges confronting us in the near future.

On August 3, 2004, a local millage to support police and fire services was successfully approved. This funding secures the staffing levels at 101 for the police department and 50 for the fire department. This millage expires June 30, 2007.

Major Initiatives

The following were among the many activities and accomplishments to which both the elected officials and staff devoted their energies in fiscal year 2004-2005:

- 1) In October 2004, City Manager Mark Wollenweber retired after nearly 15 years of service and his position was filled by the Fire Chief Ken Podolski. In November 2004, Mayor Curt Dumas resigned to accept the position of DPW/Water Director. Several other top employees retired during the year including the Library Director and Personnel Director. The Police Chief retired shortly after year end. Change continues to occur within the organization with a mayoral and council election to be held November 8, 2005
- 2) Budget discussions continued throughout the year. This process resulted in stagnant budgets set at approximately the same level as prior year. A mid-year budget reduction reduced expenditures and increased funds available for subsequent years. The carryover to subsequent years is estimated to be \$4.6 million, with \$1.4 million designated for specific projects.
- 3) All staff positions continue to be evaluated when they become open.
- 4) Cuts also included financial support of many special events. The fireworks were paid for by private donations.
- 5) The residential street millage program continued for the tenth year in a row. To date we have collected \$14,346,449 and expended \$14,057,800 as detailed on the maps following this letter. The balance of \$288,649 is reserved for qualifying expenditures in the following year. The millage was renewed for five additional years and expires with the July 1, 2009 levy for the fiscal year ending June 30, 2010.
- 6) St. Clair Shores' voters approved a tax levy of up to 2 mills to finance federal and state mandated improvements on the Jefferson Interceptor and repairs to sanitary sewers city-wide in September 1999, dubbed the Lake St. Clair Clean Water Initiative Project. Construction of improvements for this massive infrastructure project continued this fiscal year. To date, all of the residential sanitary sewers have been televised and repairs and improvements are ongoing under this project. The residential sewers repaired at the beginning of this undertaking will now be cleaned and televised again to see that the repairs are holding up properly.
- 7) An active blight program aimed at maintaining property values continues to be a successful project city-wide. To date, 120+ principle structures have been demolished, leaving room for new development, which is a catalyst for numerous neighborhood improvements.
- 8) Police and Fire operations represent about 43 percent of the City's general operating budget. Both police and fire departments continue to operate effectively, with 40,000 and 6,000 incident responses, respectively. The fire department was one of the earliest to install defibrillators in most city/public buildings.

- 9) The recreational opportunities at this City's disposal rival any community in southeast Michigan. Volunteers should be credited with much of the success of these operations; nearly 500 coaches participated in baseball, soccer, basketball, and skating associations. The civic ice arenas are utilized regularly by over 2,500 skating club members in addition to the over 5,600 open skating participants. A total of 16,300 volunteer hours were logged at the senior center and there were over 10,500 visits at the pool/waterslide. The St. Clair Shores Golf Course and Country Club had 54,800 rounds of golf.

Some of the major initiatives for July 1, 2005 and thereafter are as follows:

- 1) The sewer repair and construction necessary under the Clean Water Initiative continues.
- 2) We have obtained grant funding to resurface Harper Avenue from 11 Mile to 13 Mile. We will need to replace the waterline first, which is partially funded at this time. Additional funding is anticipated from bond proceeds.
- 3) We continue to monitor the increased water loss and look for leaks. It is anticipated that we will hire a professional firm to look for leaks in the near future.
- 4) The long-standing Activities Committee is planning a children's Halloween event and tree lighting ceremony through private donations. The committee also presented the Summer Concert Series and fireworks this past summer.
- 5) Recent General Fund budgets have eliminated 35 positions in the last three years and almost all capital spending. The slowdown in the economy and the expected increases in expenditures for insurance and homeland security will seriously affect future budgets.

Budgeting Controls

In accordance with State law, the City's budget is prepared on the modified accrual basis for governmental type funds, and its accounting records are also maintained on that basis. Under modified accrual accounting, revenues are recorded when they are both measurable and available. Expenditures are recorded when a liability is incurred, except for interest on long-term debt, accrued vacation benefits, and self-insurance liabilities. Governmental fund types, such as the City's General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds, are reported on the modified accrual basis. The City's Enterprise Funds, Internal Service Funds, Pension, and other Employee Benefit Trust Funds are reported on the full accrual basis, under which revenues are recorded when earned and expenses are recorded when incurred.

The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. Activities of the General Fund are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level for the General Fund, Special Revenue Funds, and certain Debt Service Funds. However, for internal accounting purposes, budgetary control is maintained by object class (line account) for all funds. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary

control. Purchase orders that would create an over-encumbrance are not written until additional appropriations are available. Encumbered accounts lapse at year end. However, any encumbrances outstanding at June 30, 2005 are generally reported as designated fund balance for subsequent year expenditures. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Pension and Other Postemployment Benefits

The City has two Pension Trust Funds: the Employee's Retirement System created by City Charter on July 1, 1951 and the Police and Fire Retirement System created under Public Act 345 and collective bargaining. An actuarial study determines the funding required by the City to meet its future benefit obligations. In the most recent actuarial report for the period ended June 30, 2004, the total estimated actuarial accrued liabilities was \$49,337,849 for the Employees' Retirement and \$98,335,479 for the Police and Fire Retirement. One method of assessing the financial strength of a pension fund is to compute the percentage of liabilities that has been funded. This percentage at June 30, 2004 was 83.6 percent for the Employees Retirement System, down from 89.3 percent at June 30, 2003, and 96.2 percent for the Police and Fire Retirement System, down from 108.2 percent as of June 30, 2003. The primary cause of the reduction in the funding ratios is a reduction in the market value of investments. The City also provides postretirement health and dental care benefits for retirees and their dependents. As of the end of the current year, there were a total of 364 retirees receiving these benefits, which are financed on a pay-as-you-go basis. GAAP does not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits at this time. In 2000, the City created the Police and Fire Retiree Health Trust and began setting aside \$250,000 per year toward this unfunded liability for police and fire retirees. To date, there has not been a similar trust fund set up to pre-fund general retiree benefits.

Cash Management

It is the policy of the City of St. Clair Shores to invest public funds in a manner which will provide maximum security with the highest investment return while meeting the daily cash flow demands of the City and conforming to all State statutes and local ordinances governing the investment of public funds. Cash temporarily idle during the year was invested in demand deposits, certificates of deposits, and mutual funds investing in obligations of the U.S. government.

Risk Management

St. Clair Shores is a member of the Michigan Municipal Risk Management Authority (MMRMA). The MMRMA is a self-insured association with a membership of approximately 1,170 local government units in Michigan. It provides risk management, claims administration, legal defense, and reinsurance services for its members.

The City is also self-insured for workers' compensation and medical benefits coverage. We used Citizens Management Incorporated as a third-party administrator of the workers' compensation program and purchase reinsurance through Citizens Insurance Company through June 30, 2005. Effective July 1, 2005, we have contracted with The Accident Fund Company as a result of accepting bids during the year. We utilize Blue Cross Blue Shield as a third-party administrator of a self-funded medical benefits program.

Awards

For the tenth year in a row, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of St. Clair Shores for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

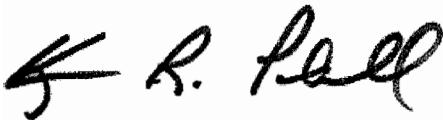
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFRs must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of St. Clair Shores has received a Certificate of Achievement for the last 10 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgments

The preparation of the comprehensive financial report on a timely basis was made possible by the dedicated service of the entire staff of the Department of Finance and our independent auditors, Plante & Moran, PLLC, CPAs. Each of them has our sincere thanks. In closing, without the leadership and support of the City Council, preparation of this report would not have been possible.

Sincerely,



Kenneth R. Podolski
City Manager
Treasurer



Timothy P. Haney
Director of Finance and City

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of St. Clair Shores,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

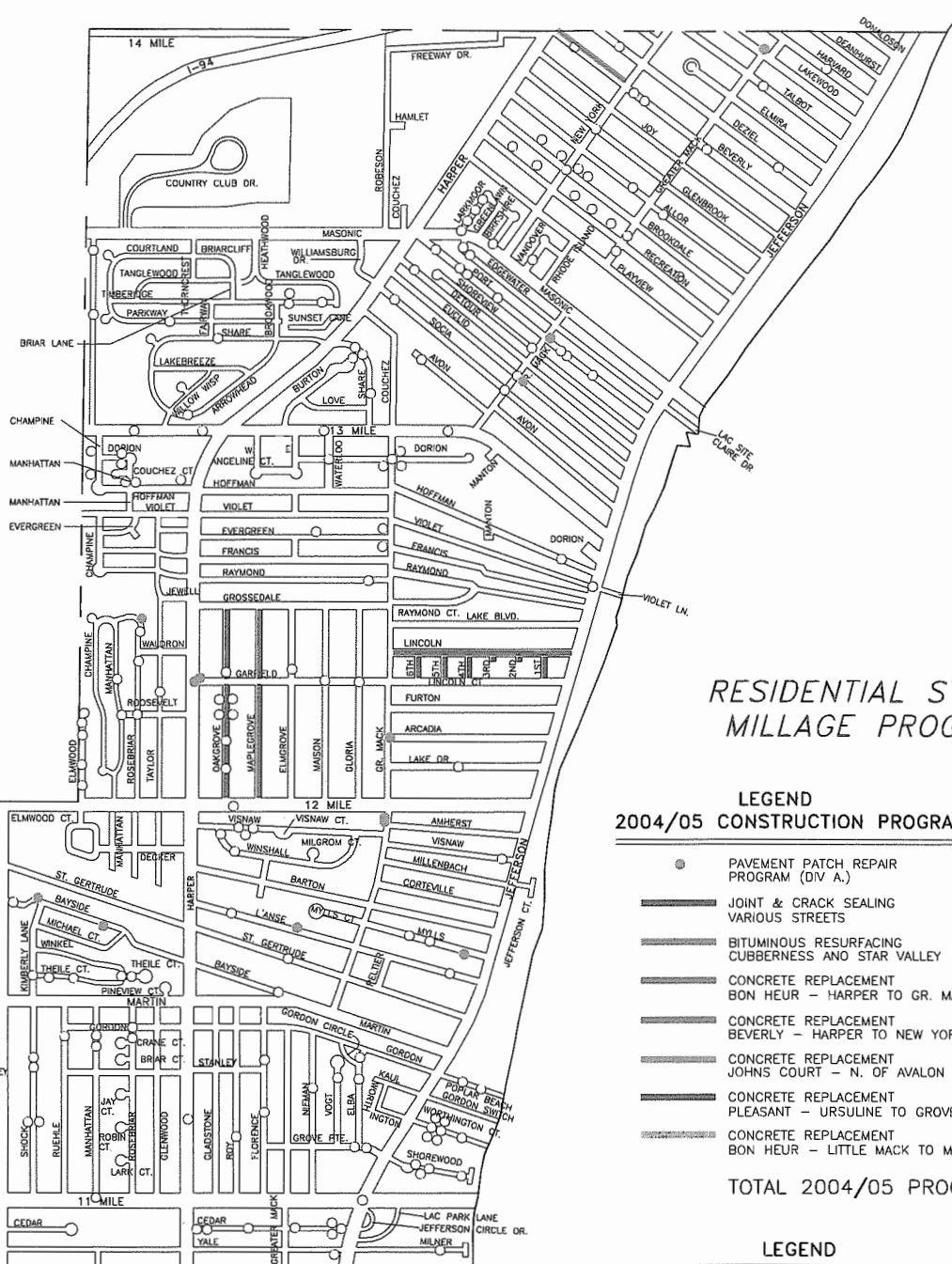
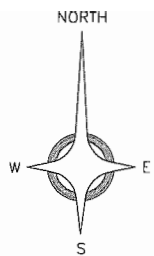


Nancy L. Ziehl

President

Jeffrey R. Enen

Executive Director



MATCH LINE SEE SHEET No. 2

RESIDENTIAL STREET MILLAGE PROGRAM

LEGEND		COST
2004/05 CONSTRUCTION PROGRAM		
	PAVEMENT PATCH REPAIR PROGRAM (DIV A.)	\$ 553,877
	JOINT & CRACK SEALING VARIOUS STREETS	\$ 85,664
	BITUMINOUS RESURFACING CUBBERNESS AND STAR VALLEY	\$ 133,505
	CONCRETE REPLACEMENT BON HEUR - HARPER TO GR. MACK	\$ 392,092
	CONCRETE REPLACEMENT BEVERLY - HARPER TO NEW YORK	\$ 269,090
	CONCRETE REPLACEMENT JOHNS COURT - N. OF AVALON	\$ 39,431
	CONCRETE REPLACEMENT PLEASANT - URSULINE TO GROVE	\$ 191,090
	CONCRETE REPLACEMENT BON HEUR - LITTLE MACK TO MANHATTAN	\$ 285,469
TOTAL 2004/05 PROGRAM		\$ 1,950,218
LEGEND		COST
	PREVIOUS PROGRAMS	\$ 12,107,582

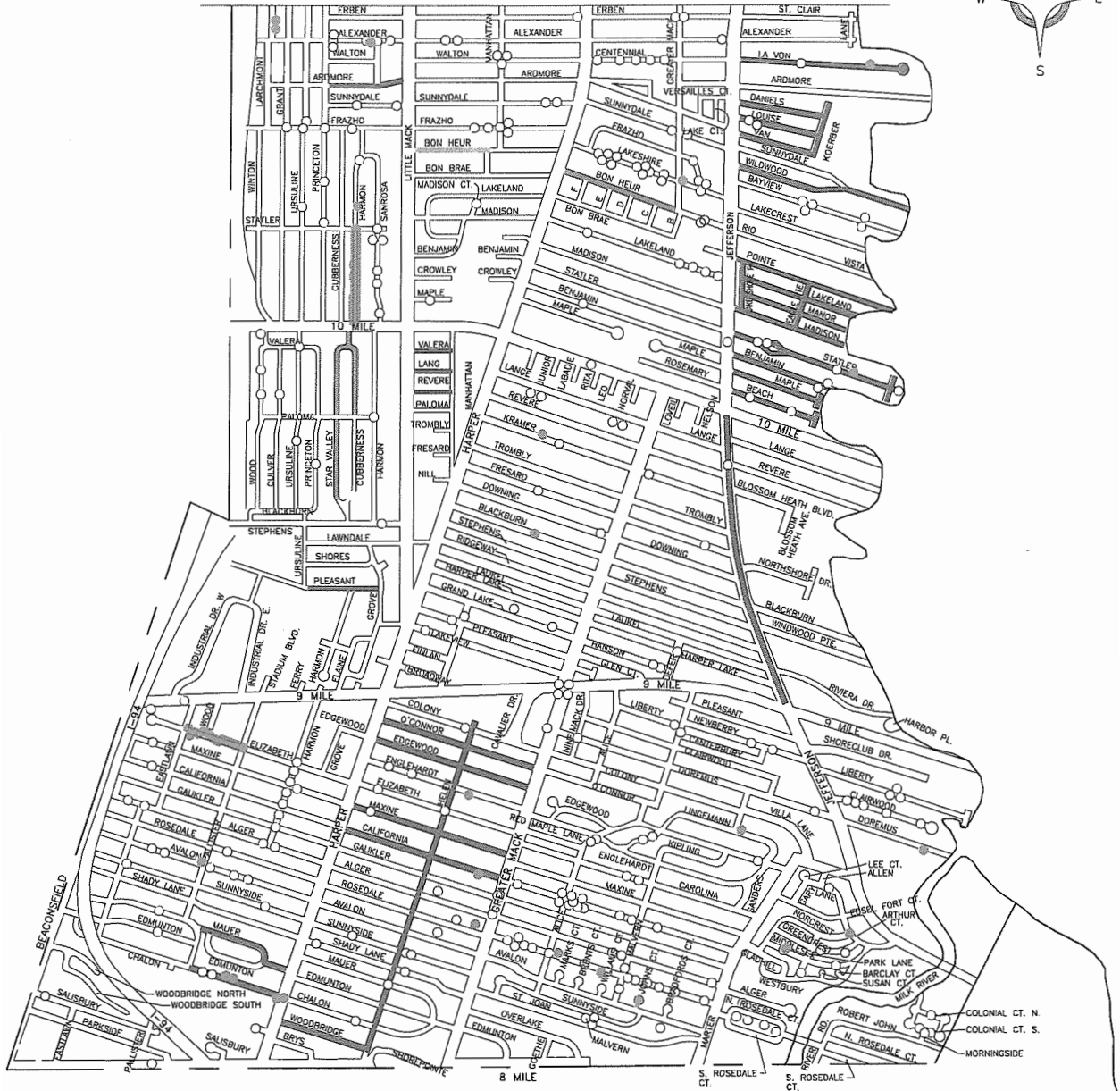
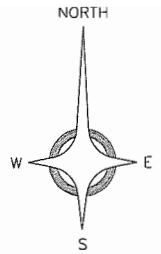
TOTAL RESIDENTIAL
STREETS PROGRAM \$ 14,057,800



ANDERSON, ECKSTEIN AND WESTRICK, INC.
Civil Engineers • Surveyors • Architects
51301 Schoenherr Road, Shelby Township, Michigan 48315
Phone 586-726-1234 Fax 586-726-8780

1 of 2

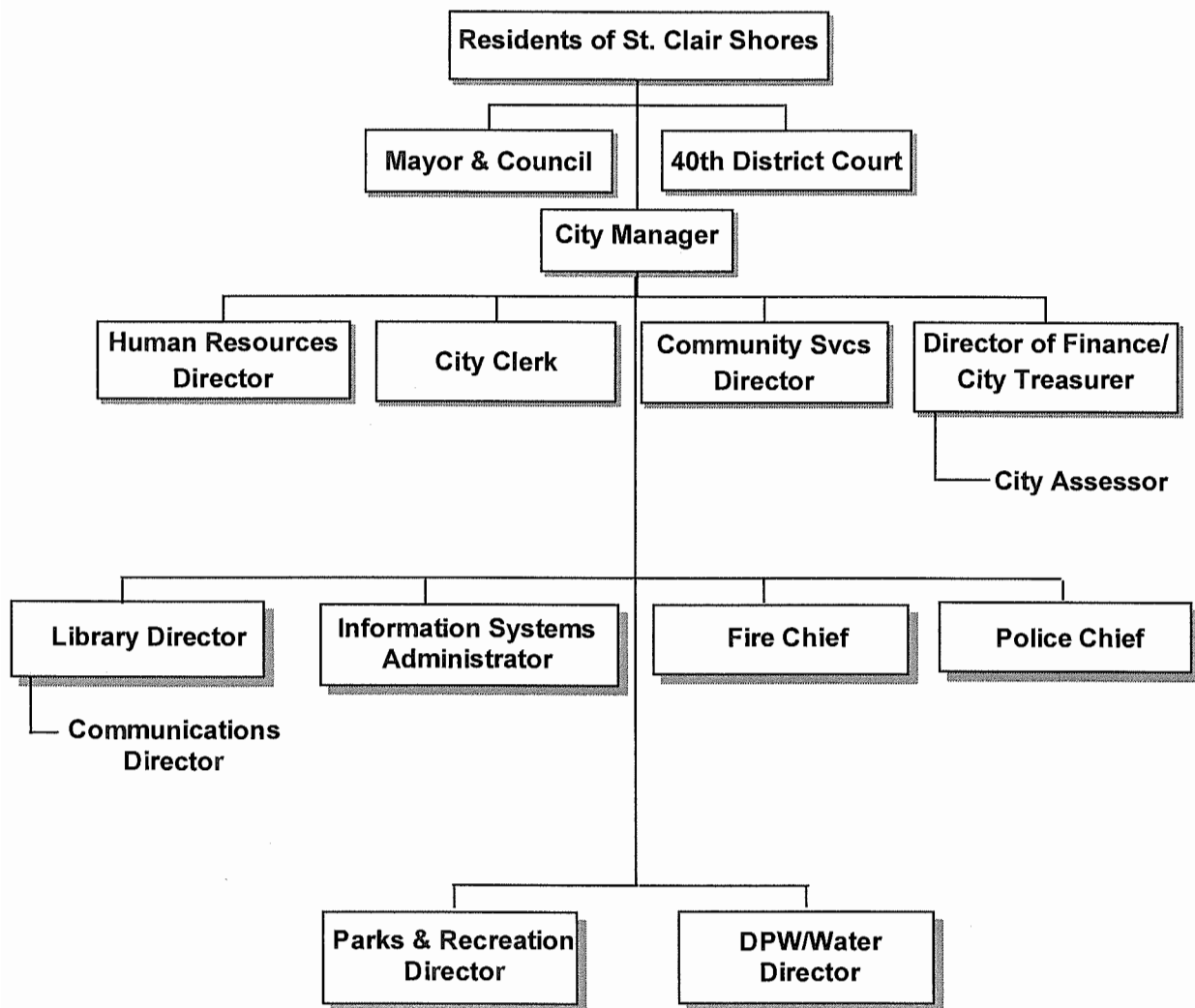
MATCH LINE SEE SHEET No. 1



ANDERSON, ECKSTEIN AND WESTRICK, INC.
 Civil Engineers • Surveyors • Architects
 51301 Schoenherr Road, Shelby Township, Michigan 48315
 Phone 586-726-1234 Fax 586-726-8780

2 of 2

City of St. Clair Shores, Michigan Organizational Chart



City of St. Clair Shores, Michigan

List of Principal Officials June 30, 2005

City Manager

Kenneth R. Podolski, City Manager
Michael E. Smith, Interim Human Resource Director
Robert Ihrle, City Attorney

Clerk

Mary Kotowski, City Clerk

Community Services

Christopher R. Rayes, Director of Community Services
Daniel R. Bertolo, Assistant Community Development Director I
Dennis Cairns, Building Official

Court

Tammy Wildey, Court Administrator

Department of Public Works

Curtis L. Dumas Jr., Department of Public Works/Water Director

Finance

Timothy P. Haney, Director of Finance/Treasurer
Sharon A. Schuster, Controller
Susan Kroening, Assistant Controller
Scott Vandermergel, City Assessor

Fire

Matthew M. Kovalcik, Fire Chief

Information Systems

Greg Corless, Information Systems Administrator

Library and Information Services

RoseMary Orlando, City Librarian
Sue Ann Mihalic, Assistant Librarian
Mary Jane Winkler, Communication Director

Parks and Recreation

Gregory Esler, Parks and Recreation Director
Sandra Wolny, Deputy Parks and Recreation Director
Timothy J. Dorner, Golf Course Superintendent

Police

Francis J. Troester, Police Chief
Charles R. Burnett, Deputy Police Chief

City of St. Clair Shores, Michigan

Fund Organization Chart

Governmental Funds

General	Special Revenue
General Fund Activity	Library State Aid Library Penal Fund Major Streets Local Streets Court Building Drug Law Enforcement Community Development Block Grant (CDBG) Family Rental Program
Debt Service	Capital Projects
Debt Service Building Authority 1989 MVH Debt Retirement 1990 MVH Debt Retirement 1991 MVH Debt Retirement 1994 MVH Debt Retirement SEMSD Clean Water Initiative	SEMSD Clean Water Initiative Twelve Mile Resurfacing

Proprietary Funds

Enterprise	Internal Service
Recreational Revenue Utility	Motor Pool Computer Replacement

Fiduciary Funds

Pension Trust	Agency
General Employees' Pension Fund Police and Fire Retirement System	General Agency Tax Collections Water Feasibility Study

Other Employee Benefit Trust Fund

Police and Fire Retiree Health Care

Component Units

Economic Development Corporation
Tax Increment Finance Authority (TIFA)
Brownfield Redevelopment Authority



Plante & Moran, PLLC
Suite 200
10 S. Main St.
Mount Clemens, MI 48043
Tel: 586.465.2200
Fax: 586.469.0165
plantemoran.com

Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of St. Clair Shores, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of St. Clair Shores, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of St. Clair Shores, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of St. Clair Shores, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement systems schedules of funding progress, and the budgetary comparison schedules for the major governmental funds, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and Members
of the City Council
City of St. Clair Shores, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of St. Clair Shores, Michigan's basic financial statements. The accompanying introductory section, other supplemental information, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2005 on our consideration of the City of St. Clair Shores, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

September 26, 2005

City of St. Clair Shores, Michigan

Management's Discussion and Analysis

Overview of the Financial Statements

Our discussion and analysis of the City of St. Clair Shore's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the transmittal letter on pages i-vi and the City's financial statements which begin on page 12.

Financial Highlights

- The City's net assets increased as a result of this year's operations. Net assets of our governmental activities increased \$5,740,405 or 5.6 percent; net assets of our business-type activities increased \$81,967 or 0.2 percent.
- During the year, the City had revenue in governmental activities that was \$5,740,405 more than the \$45,896,016 in expenses.
- In the City's business-type activities, revenues were \$14,667,704 while expenses were \$14,585,737.
- The General Fund reported revenues in excess of expenditures of \$794,495.
- General Fund revenues exceeded the budget by \$593,311, while expenditures were \$2,615,997 less than budgeted.

Government-wide statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

- Government activities - Most of the City's basic services are included here such as the police, fire, public works and parks departments, and general administration. Property taxes, state-shared revenue, charges for services, and grants provide most of the funding.

City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)

- Business-type Activities - The City charges fees to customers to cover costs of providing water and sewer services.
- Component Units - The City includes three other entities in its report: the Economic Development Corporation, the Tax Increment Finance Authority, and the Brownfield Redevelopment Authority. Although legally separate, these "component units" are important because the City exercises control over them.

The City as a Whole

The City's combined net assets are \$144.3 million at June 30, 2005. Business-type activities make up \$36.1 million and governmental activities make up \$108.2 million. Combined revenues are \$66.3 million. Revenues from governmental-type activities make up \$51.6 million and business-type activities are \$14.7 million. The tables below show a comparison of the current year to last year.

City of St. Clair Shores - Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and other assets	\$ 27,898,255	\$ 25,879,767	\$ 17,722,666	\$ 17,344,435	\$ 45,620,921	\$ 43,224,202
Capital assets	133,545,953	129,752,873	22,506,223	23,032,968	156,052,176	152,785,841
Total assets	161,444,208	155,632,640	40,228,889	40,377,403	201,673,097	196,010,043
Liabilities						
Long-term liabilities						
outstanding	42,664,440	44,032,834	1,918,506	2,070,280	44,582,946	46,103,114
Other liabilities	10,520,197	9,080,640	2,244,574	2,323,281	12,764,771	11,403,921
Total liabilities	53,184,637	53,113,474	4,163,080	4,393,561	57,347,717	57,507,035
Net Assets						
Invested in capital assets -						
Net of related debt	91,266,510	87,691,385	20,561,223	20,817,968	111,827,733	108,509,353
Restricted	10,928,070	10,922,405	1,247,015	1,238,993	12,175,085	12,161,398
Unrestricted	6,064,991	3,905,376	14,257,571	13,926,881	20,322,562	17,832,257
Total net assets	<u>\$ 108,259,571</u>	<u>\$ 102,519,166</u>	<u>\$ 36,065,809</u>	<u>\$ 35,983,842</u>	<u>\$ 144,325,380</u>	<u>\$ 138,503,008</u>

Net assets of the City's governmental activities increased by 5.6 percent, or \$108.3 million at June 30, 2005 compared to \$102.5 million at June 30, 2004. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$3.9 million at June 30, 2004 to \$6.1 million at the end of this year. The majority of this increase reflects grants received as part of the Clean Water Initiative sanitary sewer infrastructure repair and replacement program.

City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)

City of St. Clair Shores - Changes in Net Assets

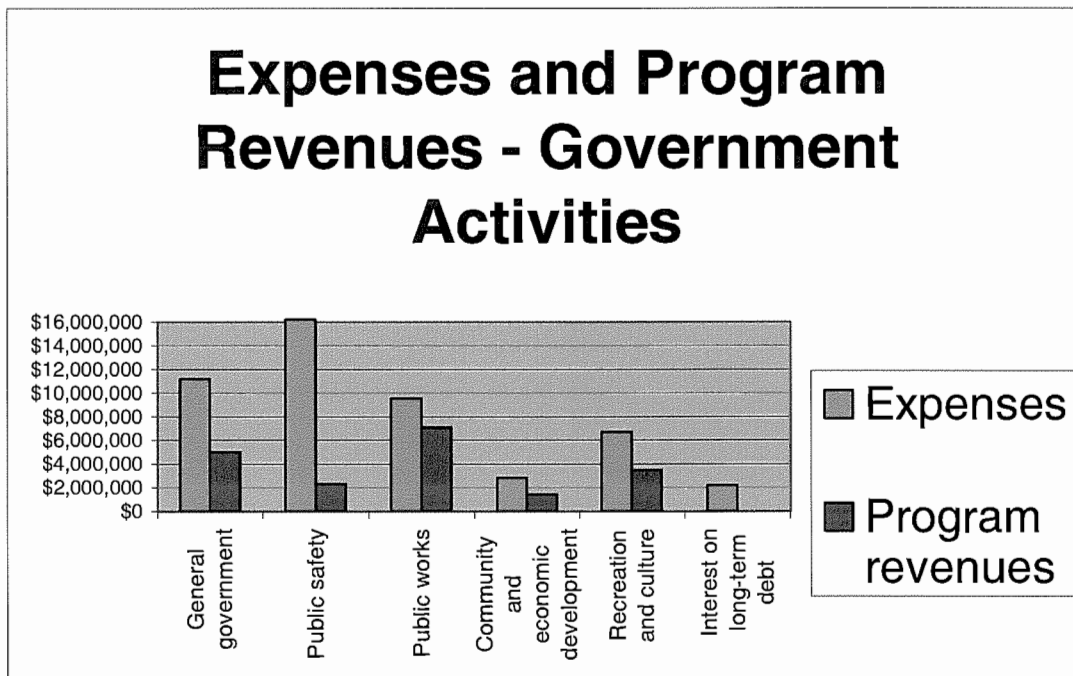
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues:						
Charges for services	\$ 8,239,386	\$ 8,135,697	\$ 12,848,164	\$ 13,582,810	\$ 21,087,550	\$ 21,718,507
Operating grants and contributions	5,123,862	5,714,200	7,914	21,374	5,131,776	5,735,574
Capital grants and contributions	4,156,805	4,064,822	17,246	251,175	4,174,051	4,315,997
General revenues:						
Property taxes	26,356,518	24,893,825	1,706,740	1,580,592	28,063,258	26,474,417
Unrestricted state-shared revenues	5,890,777	5,954,665	-	-	5,890,777	5,954,665
Unrestricted investment earnings	604,230	303,877	162,060	74,343	766,290	378,220
Cable revenues	708,795	671,771	-	-	708,795	671,771
Gain on sale of capital assets	189	-	-	-	189	-
Other	481,439	358,377	-	-	481,439	358,377
Total revenues	51,562,001	50,097,234	14,742,124	15,510,294	66,304,125	65,607,528
Expenses						
General government	10,007,516	10,113,712	-	-	10,007,516	10,113,712
Public safety	16,210,759	14,893,061	-	-	16,210,759	14,893,061
Public works	9,322,623	9,664,287	-	-	9,322,623	9,664,287
Community and economic development	1,658,320	2,016,726	-	-	1,658,320	2,016,726
Recreation and culture	6,525,861	6,311,869	-	-	6,525,861	6,311,869
Interest on long-term debt	2,170,937	1,657,275	-	-	2,170,937	1,657,275
Water and sewer	-	-	14,585,737	13,730,841	14,585,737	13,730,841
Total expenses	45,896,016	44,656,930	14,585,737	13,730,841	60,481,753	58,387,771
Income - Before transfers	5,665,985	5,440,304	156,387	1,779,453	5,822,372	7,219,757
Transfers	74,420	(22,598)	(74,420)	22,598	-	-
Increase in Net Assets	5,740,405	5,417,706	81,967	1,802,051	5,822,372	7,219,757
Net Assets - July 1, 2004	102,519,166	97,101,460	35,983,842	34,181,791	138,503,008	131,283,251
Net Assets - June 30, 2005	<u>\$ 108,259,571</u>	<u>\$ 102,519,166</u>	<u>\$ 36,065,809</u>	<u>\$ 35,983,842</u>	<u>\$ 144,325,380</u>	<u>\$ 138,503,008</u>

City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)

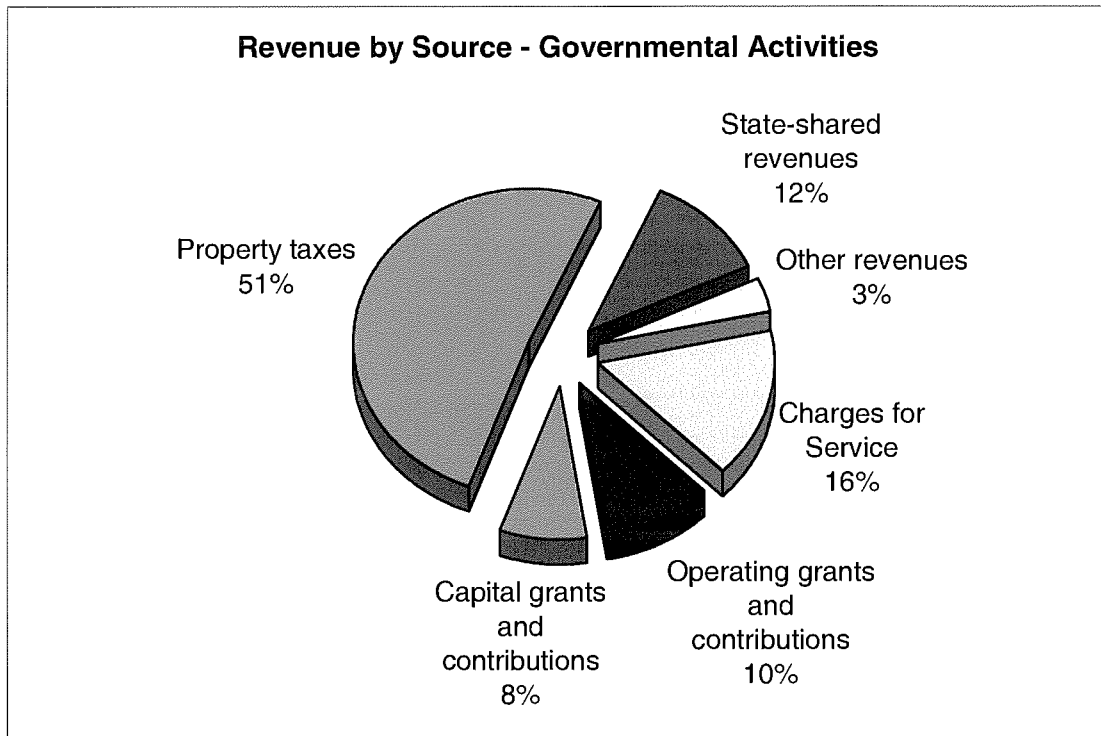
Governmental Activities

Revenues for the City's governmental activities totaled \$51.6 million in 2005. Property taxes were 51 percent or \$26.4 million. Property taxes increased by 5.9 percent from last year, reflecting a slight increase in property tax rates and a modest increase in taxable value. Charges for service totaling \$8.2 million or 15.9 percent of revenues support programs such as building inspections, recreation programs, etc. These charges increased, reflecting an increase in the sidewalk replacement program and general price increases as we continue to shift more program costs to users because other revenues are not available to support such programs. State-shared revenues, totaling 11.4 percent or \$5.9 million, continue to be of concern; we are uncertain as to funding levels for the future. We anticipate that the State will continue to reduce the discretionary component of state-shared revenues in order to balance its own budget. Capital grants, totaling 8.1 percent or \$4.2 million, support construction projects such as the Clean Water Initiative.



City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)

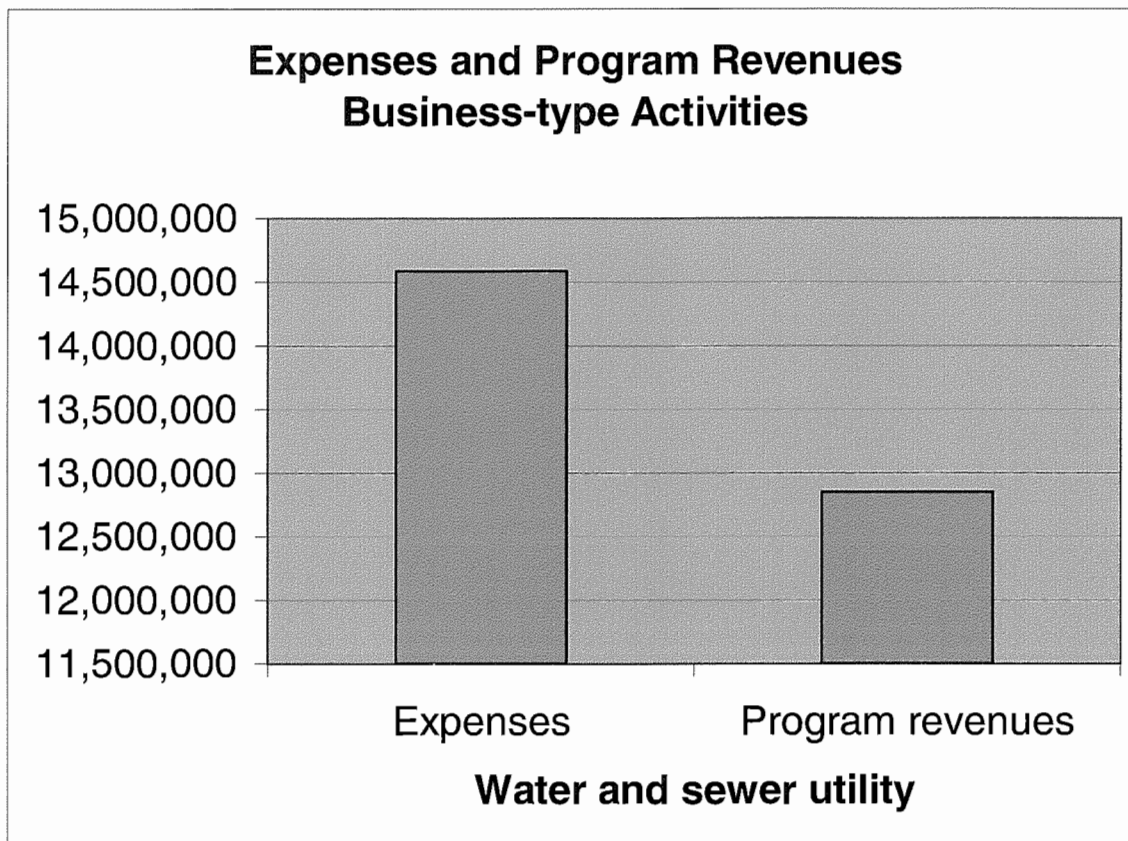


Business-type Activities

The water and sewer operations are funded primarily by user fees or charges for service which make up 87.2 percent of revenues. Property taxes make up substantially all of the remaining revenues. The property tax supplement (1 mill) to user fees was renewed for five years starting July 1, 2004.

City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)



The City has one business-type activity: the water and sewer system. Revenues of the City's Utility Fund totaled \$14.7 million in 2005 and expenses were \$14.6 million. The fund nearly broke even for the fiscal year.

- Water rates were decreased from \$19.07 per 1,000 cubic feet to \$18.95 per 1,000 cubic feet. This decrease reflects the increase in property tax revenues from the renewal and rollup of the millage supplement. Sewer rates increased from \$26.12 to \$26.53 per 1,000 cubic feet. The volume of water sold was slightly below budget and purchases of water were 17 percent above budget. During the year, water loss climbed from 8.11 percent to 28.6 percent. We have begun an aggressive program to reduce water loss back down to an acceptable range for a system our size and age.

City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)

City of St. Clair Shores - Capital Assets (in millions)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 10.1	\$ 10.1	\$ -	\$ -	\$ 10.1	\$ 10.1
Building and improvements	19.9	19.7	5.1	5.1	25.0	24.8
County drains	2.9	2.9	-	-	2.9	2.9
Improvements other than buildings	16.7	16.7	0.5	0.5	17.2	17.2
Furniture fixtures and equipment	12.1	11.6	0.7	0.7	12.8	12.3
Water and sewer distribution systems	-	-	39.3	38.8	39.3	38.8
Vehicles	8.5	8.5	-	-	8.5	8.5
Infrastructure	73.3	67.0	-	-	73.3	67.0
Construction in progress	42.4	39.7	0.4	0.7	42.8	40.4
Total	<u>\$ 185.9</u>	<u>\$ 176.2</u>	<u>\$ 46.0</u>	<u>\$ 45.8</u>	<u>\$ 231.9</u>	<u>\$ 222.0</u>

Capital assets related to governmental activities increased by \$9.7 million, most of it in infrastructure and construction in progress.

See capital asset note disclosures for additional information.

Long-term Debt

Additional debt was issued to support the Clean Water Initiative in the amount of \$1.7 million. Revenue bonds issued for the water and sewer utility were refunded during the year for a present value savings of \$88,000.

See long-term debt note disclosures for additional information.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law or bond covenants. The City Council also establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds as follows:

- Governmental funds - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)

- Proprietary funds - Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund reporting, like government-wide statements, provide both short- and long-term financial information.
- Fiduciary funds - The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

The Fund Financial Statements begin on page 15 and provide detailed information on the most significant funds - not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2005 include the General Fund, the Major and Local Streets Funds, the SEMSD Clean Water Initiative Debt Service and Capital Projects Funds.

The major components of revenues in these funds are property taxes and state sources. The major components of expenditures in these funds are public safety (police and fire) and public works. There was a deficit of revenues and other financing sources over expenditures in these funds of \$0.2 million. The majority of this deficit is in the Street Funds, offset by an excess in the General Fund.

General Fund Budgetary Highlights

Actual revenues were within 1.6 percent of the final budget. Actual expenditures were 6.6 percent below budget, representing a carryover of funds for specific projects and subsequent year expenditures.

Current Economic Conditions

The City continues to balance its budget; however, structurally there is a funding problem for established communities in Michigan. The three major funding sources for cities are property taxes, state-shared revenues, and fees and charges. All three revenue sources are subject to limitations that over the last few years and for the foreseeable future will prevent them from increasing at the rate of inflation. Expenses on the other hand are rising faster than inflation in many areas such as health care, energy costs, etc. This has resulted in a reduction in personnel (more than 35 in the last three years) in order to balance the budget. The City government is a service to the City residents and therefore its primary costs are personnel related. Through the use of long-term planning, the City will continue to balance its budget. On August 3, 2004, the voters of the City approved a millage increase of 1.5927 mills for three years commencing on July 1, 2005 for police and fire operations. The millage guarantees staffing at 101 personnel for the police department and 50 personnel for the fire department. It is projected that this additional millage revenue in the General Fund will allow for a balanced budget.

City of St. Clair Shores, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Timothy P. Haney, the Director of Finance, at the City of St. Clair Shores, 27600 Jefferson Circle Drive, St. Clair Shores, MI 48081.

City of St. Clair Shores, Michigan

Statement of Net Assets June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 22,151,534	\$ 5,771,593	\$ 27,923,127	\$ 727,016
Receivables - Net:				
Property taxes	529,618	-	529,618	-
Customers	-	3,704,309	3,704,309	-
Special assessments	158,128	116,397	274,525	-
Cable and other	374,708	-	374,708	-
Due from other governmental units	2,264,769	23,912	2,288,681	6,921
Internal balances	240,859	(240,859)	-	-
Inventories	-	169,572	169,572	-
Restricted assets (Note 7)	1,436,164	1,247,015	2,683,179	-
Investments in joint ventures (Note 14):				
Southeast Macomb Sanitary District	-	6,930,727	6,930,727	-
South Macomb Disposal Authority	742,475	-	742,475	-
Capital assets (Note 5):				
Non-depreciable capital assets	52,535,206	377,009	52,912,215	-
Depreciable capital assets - Net	81,010,747	22,129,214	103,139,961	-
Total assets	161,444,208	40,228,889	201,673,097	733,937
Liabilities				
Accounts payable	1,653,008	1,864,844	3,517,852	26,102
Accrued and other liabilities	3,695,525	140,340	3,835,865	18,540
Due to other governmental units	521,945	73,156	595,101	2,500
Unearned revenue (Note 9)	92,206	-	92,206	-
Noncurrent liabilities (Note 11):				
Due within one year	4,557,513	166,234	4,723,747	245,000
Due in more than one year	42,664,440	1,918,506	44,582,946	2,120,000
Total liabilities	53,184,637	4,163,080	57,347,717	2,412,142
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	91,266,510	20,561,223	111,827,733	-
Restricted:				
Streets	1,134,153	-	1,134,153	-
Debt service	3,382,753	-	3,382,753	-
Sanitation	4,975,066	-	4,975,066	-
County drains (Note 7)	895,342	-	895,342	-
Bond ordinance requirements (Note 7)	540,756	1,247,015	1,787,771	-
Unrestricted	6,064,991	14,257,571	20,322,562	(1,678,205)
Total net assets (deficit)	\$ 108,259,571	\$ 36,065,809	\$ 144,325,380	\$ (1,678,205)

City of St. Clair Shores, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government - Governmental activities:				
General government	\$ 10,007,516	\$ 2,044,894	\$ 158,457	\$ -
Public safety	16,210,759	2,005,409	286,182	13,006
Public works	9,322,623	443,775	3,558,482	4,143,799
Community and economic development	1,658,320	498,743	909,581	-
Recreation and culture	6,525,861	3,246,565	211,161	-
Interest on long-term debt	2,170,937	-	-	-
Total governmental activities	45,896,016	8,239,386	5,123,863	4,156,805
Business-type activities - Water and sewer	14,585,737	12,848,164	7,914	17,246
Total primary government	<u>\$ 60,481,753</u>	<u>\$ 21,087,550</u>	<u>\$ 5,131,777</u>	<u>\$ 4,174,051</u>
Component units:				
Economic Development Corporation	\$ -	\$ -	\$ -	\$ -
Tax Increment Finance Authority	385,599	-	-	-
Brownfield Redevelopment Authority	1,800	-	-	-
Total component units	<u>\$ 387,399</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
Unrestricted state-shared revenues				
Unrestricted investment earnings				
Cable revenues				
Miscellaneous				
Gain on sale of capital assets				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets (Deficit) - Beginning of year				
Net Assets (Deficit) - End of year				

Statement of Activities Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (7,804,165)	\$ -	\$ (7,804,165)	\$ -
(13,906,162)	-	(13,906,162)	-
(1,176,567)	-	(1,176,567)	-
(249,996)	-	(249,996)	-
(3,068,135)	-	(3,068,135)	-
(2,170,937)	-	(2,170,937)	-
(28,375,962)	-	(28,375,962)	-
-	(1,712,413)	(1,712,413)	-
(28,375,962)	(1,712,413)	(30,088,375)	-
-	-	-	-
-	-	-	(385,599)
-	-	-	(1,800)
-	-	-	(387,399)
26,356,518	1,706,740	28,063,258	678,741
5,890,777	-	5,890,777	-
604,229	162,060	766,289	9,319
708,795	-	708,795	-
481,439	-	481,439	2,500
189	-	189	-
74,420	(74,420)	-	-
34,116,367	1,794,380	35,910,747	690,560
5,740,405	81,967	5,822,372	303,161
102,519,166	35,983,842	138,503,008	(1,981,366)
\$ 108,259,571	\$ 36,065,809	\$ 144,325,380	\$ (1,678,205)

City of St. Clair Shores, Michigan

	Major Special Revenue Funds			Major Debt Service Fund
	General Fund	Major Streets Fund	Local Streets Fund	SEMSD Clean Water Initiative
Assets				
Cash and investments (Note 3)	\$ 14,243,208	\$ 722,857	\$ 19,451	\$ 3,489,567
Receivables:				
Taxes	529,618	-	-	-
Special assessments	158,128	-	-	-
Cable and other	311,853	-	43,258	15,031
Due from other governmental units	1,225,656	413,767	335,678	-
Restricted assets (Note 7)	-	-	-	-
Due from other funds (Note 4)	408,737	-	200,120	-
Total assets	\$ 16,877,200	\$ 1,136,624	\$ 598,507	\$ 3,504,598
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 924,932	\$ 92,118	\$ 263,855	\$ -
Accrued and other liabilities	2,680,812	-	18,574	216
Due to other funds (Note 4)	-	200,407	8,775	274,266
Due to other governmental units	488,361	-	18,097	-
Deferred revenue (Note 9)	436,984	-	-	-
Total liabilities	4,531,089	292,525	309,301	274,482
Fund Balances				
Reserved for:				
Postemployment benefits (Note 6)	433,220	-	-	-
Sanitation Trust (Note 6)	4,975,066	-	-	-
Street Improvement Trust (Note 6)	848	-	-	-
Streets repair and construction	-	-	289,206	-
Unreserved:				
Designated for subsequent years' expenditures	4,544,161	-	-	-
Undesignated	2,392,816	844,099	-	3,230,116
Unreserved, reported in:				
Special Revenue Funds	-	-	-	-
Debt Service Funds	-	-	-	-
Total fund balances	12,346,111	844,099	289,206	3,230,116
Total liabilities and fund balances	\$ 16,877,200	\$ 1,136,624	\$ 598,507	\$ 3,504,598

**Governmental Funds
Balance Sheet
June 30, 2005**

Major Capital Projects Fund		
SEMSD Clean Water Initiative Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 1,560,848	\$ 20,035,931
-	-	529,618
-	-	158,128
-	-	370,142
-	289,668	2,264,769
-	66	66
<u>273,866</u>	<u>287</u>	<u>883,010</u>
<u>\$ 273,866</u>	<u>\$ 1,850,869</u>	<u>\$ 24,241,664</u>
\$ 273,866	\$ 24,282	\$ 1,579,053
-	8,867	2,708,469
-	246,981	730,429
-	-	506,458
<u>-</u>	<u>87,275</u>	<u>524,259</u>
273,866	367,405	6,048,668
-	-	433,220
-	-	4,975,066
-	-	848
-	-	289,206
-	-	4,544,161
-	-	6,467,031
-	1,330,827	1,330,827
<u>-</u>	<u>152,637</u>	<u>152,637</u>
-	1,483,464	18,192,996
<u>\$ 273,866</u>	<u>\$ 1,850,869</u>	<u>\$ 24,241,664</u>

City of St. Clair Shores, Michigan

Governmental Funds Reconciliation of Fund Balances of Governmental Funds to Net Assets of Governmental Activities June 30, 2005

Total Fund Balances for Governmental Funds	\$ 18,192,996
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	125,208,155
Certain receivables are expected to be collected over several years in the General Fund and are not available to pay for current year expenditures	432,053
Other payroll liabilities are not due and payable in the current period and are not reported in the funds	(254,991)
Accrued interest payable on long-term debt is not recorded in the funds	(515,758)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(44,003,795)
Investment in joint venture is not included as an asset in the governmental funds	742,475
Cash held by Macomb County for drain projects is not included as an asset in the governmental funds	895,342
The Recreational Revenue Enterprise Fund is included as part of governmental activities	2,135,020
The Internal Service Funds (Motorpool and Computer Replacement) are included as part of governmental activities	5,428,074
Net Assets of Governmental Activities	<u>\$ 108,259,571</u>

City of St. Clair Shores, Michigan

	Major Special Revenue Funds			Major Debt Service Fund
	General Fund	Major Streets Fund	Local Streets Fund	SEMSD Clean Water Initiative
Revenue				
Property taxes	\$ 20,703,560	\$ -	\$ 1,624,613	\$ 3,518,290
Intergovernmental:				
Federal sources	160,886	-	-	-
State sources	6,328,309	2,558,156	1,000,326	-
Licenses and permits	1,400,042	-	-	-
Charges for services	3,385,726	-	173,858	-
Investment income	428,606	16,196	12,002	80,394
Court fines and forfeitures	2,096,828	-	-	-
Other income	387,570	25,574	87,481	1,035,129
Total revenue	34,891,527	2,599,926	2,898,280	4,633,813
Expenditures				
Current:				
General government	8,783,226	262,170	616,917	-
Public safety	15,810,458	-	-	-
Public works	2,907,113	2,043,427	4,069,931	-
Community and economic development	980,415	-	-	-
Recreation and culture	4,507,473	-	-	-
Debt service:				
Principal	-	-	-	1,241,537
Interest and other charges	2,556	-	-	1,787,753
Total expenditures	32,991,241	2,305,597	4,686,848	3,029,290
Excess of Revenue Over (Under) Expenditures	1,900,286	294,329	(1,788,568)	1,604,523
Other Financing Sources (Uses)				
Issuance of debt	-	-	-	-
Transfers in (Note 4)	145,374	482,944	1,315,717	-
Transfers out (Note 4)	(1,251,165)	(1,432,110)	-	(1,500,621)
Total other financing sources (uses)	(1,105,791)	(949,166)	1,315,717	(1,500,621)
Net Change in Fund Balances	794,495	(654,837)	(472,851)	103,902
Fund Balances - Beginning of year	11,551,616	1,498,936	762,057	3,126,214
Fund Balances - End of year	\$ 12,346,111	\$ 844,099	\$ 289,206	\$ 3,230,116

**Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2005**

Major Capital Projects Fund		
SEMSD Clean Water Initiative Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 370,334	\$ 26,216,797
-	909,581	1,070,467
-	54,964	9,941,755
-	-	1,400,042
-	-	3,559,584
-	35,492	572,690
-	-	2,096,828
-	709,969	2,245,723
-	2,080,340	47,103,886
-	84,743	9,747,056
-	206,180	16,016,638
3,199,767	377,141	12,597,379
-	559,245	1,539,660
-	27,436	4,534,909
-	886,745	2,128,282
-	238,502	2,028,811
3,199,767	2,379,992	48,592,735
(3,199,767)	(299,652)	(1,488,849)
1,699,146	-	1,699,146
1,500,621	1,117,090	4,561,746
-	(837,527)	(5,021,423)
3,199,767	279,563	1,239,469
-	(20,089)	(249,380)
-	1,503,553	18,442,376
<u>\$ -</u>	<u>\$ 1,483,464</u>	<u>\$ 18,192,996</u>

City of St. Clair Shores, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (249,380)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 10,259,574

Depreciation is recorded as an expense in the statement of activities but not in the governmental funds (5,803,179)

Drain activities performed by the County on behalf of the City are recorded in the statement of activities but not in the governmental funds 497,973

Certain revenue reported in the statement of activities will not provide current financial resources in the governmental funds until future years 155,145

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 2,312,642

Interest expense is recorded when incurred in the statement of activities 12,284

Bond proceeds are not reported as financing sources on the statement of activities (1,699,146)

Increase in investment in joint venture is not included as an asset in the governmental funds 4,534

Decrease in accumulated employee sick and vacation pay, and other payroll liabilities as well as estimated general liability claims, are recorded when incurred in the statement of activities 46,652

The Recreational Revenue Fund is included as governmental activities in the statement of activities 7,902

The Internal Service Funds (Motorpool and Computer Replacement) are also included as governmental activities in the statement of activities 249,183

In the statement of activities, only the gain/loss on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds from the assets sold (53,779)

Change in Net Assets of Governmental Activities \$ 5,740,405

City of St. Clair Shores, Michigan

Proprietary Funds Statement of Net Assets June 30, 2005

	Enterprise Funds			Governmental Activities
	Utility	Recreational Revenue	Total Enterprise Funds	Internal Service Funds
Assets				
Current assets:				
Cash and cash equivalents	\$ 5,771,593	\$ 191,221	\$ 5,962,814	\$ 1,924,382
Receivables:				
Customers	3,704,309	-	3,704,309	-
Other	116,397	-	116,397	4,566
Due from other governmental units	23,912	-	23,912	-
Due from other funds (Note 4)	-	-	-	100,765
Inventories	169,572	-	169,572	-
Restricted assets (Note 7)	1,247,015	540,756	1,787,771	-
Total current assets	11,032,798	731,977	11,764,775	2,029,713
Noncurrent assets:				
Investment in Southeast Macomb Sanitary District (Note 14)	6,930,727	-	6,930,727	-
Capital assets - Net (Note 5):				
Non-depreciable assets	377,009	-	377,009	-
Depreciable capital assets - Net	22,129,214	4,751,765	26,880,979	3,586,033
Total noncurrent assets	29,436,950	4,751,765	34,188,715	3,586,033
Total assets	40,469,748	5,483,742	45,953,490	5,615,746
Liabilities				
Current liabilities:				
Accounts payable	1,864,844	34,605	1,899,449	39,350
Accrued and other liabilities	140,340	109,133	249,473	107,174
Due to other funds	240,859	5,723	246,582	6,764
Due to other governmental units	73,156	7,960	81,116	7,527
Current portion of long-term debt (Note 11)	166,234	396,446	562,680	6,848
Total current liabilities	2,485,433	553,867	3,039,300	167,663
Noncurrent liabilities - Long-term debt - Net of current portion (Note 11)	1,918,506	2,794,855	4,713,361	20,009
Total liabilities	4,403,939	3,348,722	7,752,661	187,672
Net Assets				
Invested in capital assets - Net of related debt	20,561,223	1,709,108	22,270,331	3,586,033
Restricted for bond ordinance requirements (Note 7)	1,247,015	540,756	1,787,771	-
Unrestricted (deficit)	14,257,571	(114,844)	14,142,727	1,842,041
Total net assets	\$ 36,065,809	\$ 2,135,020	38,200,829	\$ 5,428,074

Amounts reported for business-type activities in the statement of net assets are different because the
Recreational Revenue Fund is included as part of governmental activities

(2,135,020)

Net Assets of Business-type Activities

\$ 36,065,809

City of St. Clair Shores, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Enterprise Funds			Governmental Activities
	Utility Fund	Recreational Revenue Fund	Total Enterprise Funds	Internal Service Funds
Operating Revenue				
Customer fees	\$ 12,630,194	\$ 1,800,322	\$ 14,430,516	\$ -
Charges for services	-	-	-	1,552,235
Tap fees	71,986	-	71,986	-
Other	145,984	8,324	154,308	156,962
Total operating revenue	12,848,164	1,808,646	14,656,810	1,709,197
Operating Expenses				
Water purchases	2,519,293	-	2,519,293	-
Sewage disposal charges	6,328,438	-	6,328,438	-
Salaries and fringe benefits	1,915,090	864,382	2,779,472	252,384
Administrative charge	775,377	-	775,377	526,869
Repairs and maintenance	1,504,379	101,464	1,605,843	-
Depreciation and amortization	753,617	429,557	1,183,174	630,435
Supplies	56,475	158,298	214,773	269,930
Other	652,977	306,003	958,980	96,990
Total operating expenses	14,505,646	1,859,704	16,365,350	1,776,608
Operating Loss	(1,657,482)	(51,058)	(1,708,540)	(67,411)
Nonoperating Revenue (Expenses)				
Property taxes	1,706,740	-	1,706,740	-
Interest income	162,060	9,978	172,038	26,640
Federal grants	7,914	-	7,914	-
Interest expense	(80,091)	(126,018)	(206,109)	-
Loss on disposal of capital assets	-	-	-	(69,143)
Total nonoperating revenue (expenses)	1,796,623	(116,040)	1,680,583	(42,503)
Income (Loss) - Before contributions and transfers	139,141	(167,098)	(27,957)	(109,914)
Capital Contributed from Grants	17,246	-	17,246	-
Transfers In (Note 4)	-	175,000	175,000	359,097
Transfers Out (Note 4)	(74,420)	-	(74,420)	-
Net Change in Net Assets	81,967	7,902	89,869	249,183
Net Assets - Beginning of year	35,983,842	2,127,118	38,110,960	5,178,891
Net Assets - End of year	<u>\$ 36,065,809</u>	<u>\$ 2,135,020</u>	<u>\$ 38,200,829</u>	<u>\$ 5,428,074</u>
Net Change in Net Assets - Total Enterprise Funds			\$ 89,869	-
Amounts reported for business-type activities in the statement of activities are different because the Recreational Revenue Fund is included as governmental activities in the statement of activities			(7,902)	
Change in Net Assets of Business-type Activities			<u>\$ 81,967</u>	

City of St. Clair Shores, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Enterprise Funds		Total	Governmental
	Utility	Recreational	Enterprise	Internal
	Fund	Fund	Funds	Service
				Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 13,454,761	\$ 1,808,646	\$ 15,263,407	\$ 1,709,197
Payments to suppliers	(11,860,638)	(582,474)	(12,443,112)	(891,160)
Payments to employees	(1,898,931)	(854,885)	(2,753,816)	(252,264)
Internal activity - Payments from other funds	260,005	-	260,005	28,678
Other receipts (payments)	(350)	5,476	5,126	(107,693)
Net cash provided by (used in) operating activities	(45,153)	376,763	331,610	486,758
Cash Flows from Noncapital Financing Activities				
Collection of property taxes	1,706,740	-	1,706,740	-
Collection of federal grants	7,914	-	7,914	-
Transfer (to) from other funds	(74,420)	175,000	100,580	359,097
Net cash provided by noncapital financing activities	1,640,234	175,000	1,815,234	359,097
Cash Flows from Capital and Related Financing Activities				
Principal and interest paid on long-term debt	(350,818)	(292,125)	(642,943)	-
State grant	17,246	-	17,246	-
Proceeds from refunding bonds - Net of discount	1,945,000	-	1,945,000	-
Payments to refunding bond escrow agent	(1,945,000)	-	(1,945,000)	-
Purchase of capital assets	(226,874)	(25,969)	(252,843)	(447,129)
Proceeds from sale of capital assets	-	-	-	51,954
Net cash used in capital and related financing activities	(560,446)	(318,094)	(878,540)	(395,175)
Cash Flows from Investing Activities - Interest received on investments	162,060	9,978	172,038	26,640
Net Increase in Cash and Cash Equivalents	1,196,695	243,647	1,440,342	477,320
Cash and Cash Equivalents - Beginning of year	5,821,913	488,330	6,310,243	1,447,062
Cash and Cash Equivalents - End of year	<u>\$ 7,018,608</u>	<u>\$ 731,977</u>	<u>\$ 7,750,585</u>	<u>\$ 1,924,382</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and cash equivalents	\$ 5,771,593	\$ 191,221	\$ 5,962,814	1,924,382
Restricted assets (Notes 3 and 7)	1,247,015	540,756	1,787,771	-
Total cash and cash equivalents	<u>\$ 7,018,608</u>	<u>\$ 731,977</u>	<u>\$ 7,750,585</u>	<u>\$ 1,924,382</u>
Reconciliation of Operating Income Loss to Net Cash from Operating Activities				
Operating loss	\$ (1,657,482)	\$ (51,058)	\$ (1,708,540)	(67,411)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation and amortization	753,617	429,557	1,183,174	630,435
Change in investment in Southeast Macomb Sanitary District	12,981	-	12,981	-
Changes in assets and liabilities:				
Receivables	606,597	-	606,597	(1,595)
Inventories	(51,208)	-	(51,208)	-
Due from other funds	19,146	-	19,146	15,889
Due from other governmental funds	(9,911)	-	(9,911)	(113,625)
Accounts payable	14,528	(16,709)	(2,181)	2,629
Accrued and other liabilities	45,915	5,123	51,038	(4,141)
Due to other funds	240,859	2,249	243,108	12,789
Due to other governmental funds	9,561	3,227	12,788	7,527
Compensated absences	(29,756)	4,374	(25,382)	4,261
Net cash provided by (used in) operating activities	<u>\$ (45,153)</u>	<u>\$ 376,763</u>	<u>\$ 331,610</u>	<u>\$ 486,758</u>

City of St. Clair Shores, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2005

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 68,899	\$ 365,639
Investments:		
Corporate bonds and notes	23,816,743	-
U.S. government securities	19,534,646	-
Common and preferred stock	67,243,896	-
Mutual funds	13,165,155	-
Investments held by broker-dealer and banks under securities loans:		
U.S. government securities	3,899,298	-
Corporate bonds and notes	515,277	-
Common and preferred stock	9,841,154	-
Securities lending short-term collateral bank investment pool	14,755,490	
Other receivables	575,450	-
Accrued interest receivable	563,999	-
Total assets	153,980,007	\$ 365,639
Liabilities		
Accrued and other liabilities	1,608,648	\$ 188,038
Due to other governmental units	-	177,601
Amounts due to broker under securities lending agreement	14,755,490	-
Total liabilities	16,364,138	\$ 365,639
Net Assets - Held in trust for pension and other employee benefits	\$ 137,615,869	

City of St. Clair Shores, Michigan

Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2005

Additions

Investment income:	
Interest and dividends	\$ 3,955,834
Net increase in fair value of investments	7,625,076
Less investment expenses	<u>(665,859)</u>
Net investment income	10,915,051
Securities lending income:	
Interest lending income	399,001
Less borrower rebates and bank fees	<u>(360,507)</u>
Net securities lending income	38,494
Contributions:	
Employer	2,879,872
Employee	<u>491,912</u>
Total contributions	<u>3,371,784</u>
Total additions	14,325,329

Deductions

Benefit payments	9,651,487
Refunds of contributions	7,776
Administrative expenses	<u>49,577</u>
Total deductions	<u>9,708,840</u>

Net Increase 4,616,489

Net Assets Held in Trust for Pension and Other Employee Benefits

Beginning of year	<u>132,999,380</u>
End of year	<u><u>\$ 137,615,869</u></u>

City of St. Clair Shores, Michigan

Component Units Statement of Net Assets June 30, 2005

	Economic Development Corporation	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
Assets				
Cash and cash equivalents	\$ -	\$ 721,651	\$ 5,365	\$ 727,016
Receivables - Due from other governmental units	<u>1,546</u>	<u>2,875</u>	<u>2,500</u>	<u>6,921</u>
Total assets	1,546	724,526	7,865	733,937
Liabilities				
Accounts payable	-	24,302	1,800	26,102
Accrued and other liabilities	-	18,540	-	18,540
Due to other governmental units	-	2,500	-	2,500
Noncurrent liabilities:				
Due within one year	-	245,000	-	245,000
Due in more than one year	<u>-</u>	<u>2,120,000</u>	<u>-</u>	<u>2,120,000</u>
Total liabilities	-	2,410,342	1,800	2,412,142
Net Assets (Deficit) - Unrestricted	<u>\$ 1,546</u>	<u>\$ (1,685,816)</u>	<u>\$ 6,065</u>	<u>\$ (1,678,205)</u>

City of St. Clair Shores, Michigan

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants/ Contributions
Economic Development Corporation - Public works	\$ -	\$ -	\$ -
Tax Increment Finance Authority - Public works and interest on long-term debt	385,599	-	-
Brownfield Redevelopment Authority - Public works	<u>1,800</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 387,399</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes

Interest and other investment earnings

Miscellaneous

Total general revenues

Change in Net Assets

Net Assets (Deficit) - Beginning of year

Net Assets (Deficit) - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets			
Economic Development Corporation	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Total
\$ -	\$ -	\$ -	\$ -
-	(385,599)	-	(385,599)
-	-	(1,800)	(1,800)
-	(385,599)	(1,800)	(387,399)
-	678,741	-	678,741
-	9,306	13	9,319
-	-	2,500	2,500
-	688,047	2,513	690,560
-	302,448	713	303,161
1,546	(1,988,264)	5,352	(1,981,366)
<u>\$ 1,546</u>	<u>\$ (1,685,816)</u>	<u>\$ 6,065</u>	<u>\$ (1,678,205)</u>

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of St. Clair Shores, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of St. Clair Shores, Michigan:

Reporting Entity

The City of St. Clair Shores, Michigan is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. Component unit financial statements have also been presented to display the financial position and results of operations for each of the discretely presented component units.

Blended Component Units - The St. Clair Shores Building Authority (the "Authority") is governed by a board that is appointed by the City Council. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. The operations of the Authority are reported as a nonmajor Debt Service Fund.

Discretely Presented Component Units

The Economic Development Corporation (the "EDC") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's governing body, consisting of nine individuals, is appointed by the City Council and, accordingly, the City has the ability to impose its will. Complete financial statements for the EDC can be obtained from the administrative office at 27600 Jefferson Circle Drive, St. Clair Shores, MI 48081.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies (Continued)

The Tax Increment Finance Authority (the "TIFA") was created to encourage economic activity within the TIFA district boundaries. The TIFA collects captured property taxes in accordance with State law and budgets expenditures for improvements within the TIFA district boundaries. The TIFA's governing body, consisting of 12 individuals, is appointed by the City Council and, accordingly, the City has the ability to impose its will. Complete financial statements for the TIFA can be obtained from the administrative office at 27600 Jefferson Circle Drive, St. Clair Shores, MI 48081.

The Brownfield Redevelopment Authority (the "BRA") was created to facilitate the implementation of plans for the identification, treatment, and revitalization of environmentally distressed areas within the City designated as Brownfield Redevelopment Zones. The BRA's Board, consisting of 12 members, is appointed by the City Council and, accordingly, the City has the ability to impose its will. Complete financial statements for the BRA can be obtained from the administrative office at 27600 Jefferson Circle Drive, St. Clair Shores, MI 48081.

The City has excluded the St. Clair Shores Housing Commission from this report. Even though the City appoints the Housing Commission's directors, it does not have the ability to impose its will.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City (the primary government) and its discretely presented component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the discretely presented component units for which the City is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenue items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund accounts for maintenance and improvement activities for streets designated as "major" within the City. Funding is provided primarily through state-shared gas and weight taxes.

Local Streets Fund - The Local Streets Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is provided primarily through state-shared gas and weight taxes and a local property tax levy.

The SEMSD Clean Water Initiative Debt Service Fund - The SEMSD Clean Water Initiative Debt Service Fund accounts for the City's share of debt service expenditures for bonds issued in connection with the Lake St. Clair Clean Water Initiative. Funding is provided primarily by a local property tax levy.

The SEMSD Clean Water Initiative Capital Projects Fund - The SEMSD Clean Water Initiative Capital Projects Fund accounts for the City's share of the Lake St. Clair Clean Water Initiative construction activities administered by the Macomb County Public Works Commissioner. Funding is provided primarily through bond issuances.

Note I - Summary of Significant Accounting Policies (Continued)

The City reports the following major Enterprise Funds:

The Utility Fund - The Utility Fund accounts for the activities of the water distribution system and the sewage and storm water collection systems. Funding is provided primarily through user charges and a local property tax levy.

The Recreational Revenue Fund - The Recreational Revenue Fund accounts for the activity of certain recreation activities for which revenue bonds have been issued. Funding is provided primarily through user charges. For purposes of the government-wide financial statements, the Recreational Revenue Fund has been included with the governmental activities.

Additionally, the City reports the following fund types:

Internal Service Funds - The Internal Service Funds account for major machinery and equipment purchases and maintenance services provided to other departments of the City on a cost reimbursement basis.

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of employee benefit plans that accumulate resources for pension and other post-employment benefit payments to qualified employees.

Agency Funds - The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. Agency fund activity includes tax collections, a water plant feasibility study, and the general agency fund (District Court activity). Agency Funds are custodial in nature (assets equals liabilities) and do not involve the measurement of results of operations.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued before December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to apply private sector standards issued after November 30, 1989 for its Enterprise Funds.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Note I - Summary of Significant Accounting Policies (Continued)

Property Taxes - Properties are assessed as of December 31 and the related property taxes become a lien at that time. These taxes are billed on July 1 and December 1 of the following year, and are due on September 1 and February 14, respectively, with the final collection date of February 28 before they are added to the county tax rolls.

The 2004 taxable valuation of the City totaled \$1.760 billion, on which ad valorem taxes levied consisted of 6.4073 mills for the City's operating purposes, 2.4026 mills for sanitation, 1.9296 mills for the Police and Fire Retirement System, .0289 mills for community promotion, .9417 mills for residential streets, .9893 mills for water and sewer, 2.2106 mills for debt service, and .9404 mills for the library. The ad valorem taxes levied raised \$11.05 million for operation, \$4.15 million for sanitation, \$3.33 million for the Police and Fire Retirement System, \$.05 million for community promotion, \$1.62 million for residential streets, \$1.71 million for water and sewer, \$3.89 million for debt service, and \$1.62 million for the library.

The delinquent real property taxes of the City are purchased by Macomb County. The county sells tax notes, the proceeds of which are used to pay the City for these property taxes. Macomb County remitted its purchased delinquent real property taxes in April 2005. Macomb County delinquent real property taxes have been recorded as revenue in the current year.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for operations and maintenance, debt service principal and interest, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the County being held for the construction, maintenance, and debt service of the City's storm drains. Unspent bond proceeds of the Capital Projects Funds are required to be set aside for construction. These amounts have also been classified as restricted assets.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets includes all infrastructure acquired prior to the adoption of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, in 2003. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Infrastructure	8 to 40 years
Buildings and improvements	20 to 50 years
County drains	50 years
Land improvements	15 to 30 years
Vehicles	4 to 20 years
Furniture, fixtures, and equipment	7 to 30 years
Water and sewer distribution systems	50 years
Computer equipment	5 to 15 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick, vacation, and personal pay benefits. Under the City's policy, employees earn benefits based on time of service with the City. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment - generally when an individual's employment has terminated as of year end.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the third Monday in April, the City manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. As provided for by the City Charter, at a minimum, prior to the fourth Monday in June, the budget is legally adopted through passage of budget resolutions for each fund. An appropriation ordinance is approved by the City Council at the above-mentioned meeting.
4. The City manager is authorized to transfer budgeted amounts within budgetary centers (activity); however, any revisions that alter the total expenditure of any budgetary center (activity) must be approved by the City Council.

Budgeted amounts of the revenues and expenditures presented for the General, Special Revenue, and Debt Service Funds are a summarization of the budgeted amounts as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original appropriations that were adopted. Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the above funds is presented as required and other supplemental information.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.
- Proceeds from long-term debt and related refunding have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Certain State grants are budgeted as federal revenue.

Deficits - The Tax Increment Finance Authority (TIFA), a discretely presented component unit, has negative net assets as of June 30, 2005 due to the reporting of a bond payable obligation. The funds of the TIFA, presented on a modified accrual basis, have positive fund balances at June 30, 2005.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of St. Clair Shores, Michigan incurred expenditures that were in excess of the amounts budgeted, as follows:

General Fund	Final Budget	Actual	Variance
Community and economic development	\$ 2,054,545	\$ 2,159,465	\$ (104,920)
Interest and fiscal charges	-	2,556	(2,556)
Transfers out	1,271,554	1,501,165	(229,611)
Special Revenue Funds			
Library State Aid - Recreation and culture	23,500	27,436	(3,936)
Drug Law Enforcement - Public safety	188,330	206,180	(17,850)
Family Rental Program - Community and economic development	21,000	27,185	(6,185)
Debt Service Funds			
Debt Service - Public works department	362,129	377,141	(15,012)
1994 MVH - Interest and fiscal charges	149,873	149,898	(25)
SEMSD Clean Water Initiative -			
Transfers out	-	1,500,621	(1,500,621)

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 2 - Stewardship, Compliance, and Accountability (Continued)

These unfavorable variances were caused by unanticipated expenditures that became necessary during the year.

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall at July 1, 2004		\$ (314,516)
Current year building permit revenue		471,068
Related expenses:		
Direct costs	\$ 559,833	
Estimated indirect costs	<u>83,975</u>	
Total construction code expenses		<u>643,808</u>
Cumulative shortfall at June 30, 2005		<u><u>\$ (487,256)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits and Investments (Continued)

The City's investment policy, adopted in accordance with State law, permits the City to invest in investment pools organized under the Surplus Funds Investment Act of 1982 and under the Investment Company Act of 1940. For mutual funds, the City may invest in funds registered under the Investment Company Act of 1940. This authorization is limited to investment pools and mutual funds whose intent is to maintain a net asset value of \$1.00 per share and allows for indirect investment in repurchase agreements and bankers' acceptances of United States banks, as allowable for direct investment by public corporations.

The City's Fiduciary Funds, the Pension Retirement Systems, and the Police and Fire Retiree Health Care Expendable Trust Fund are also authorized by Michigan Public Act 485 of 1996 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain State and local government obligations, and certain other specified investment vehicles.

As permitted by State statutes, and under the provisions of a Securities Lending Authorization Agreement, the Police and Fire Retirement System lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Police and Fire Retirement System's custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended June 30, 2005, only United States currency was received as collateral.

The Police and Fire Retirement System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

Note 3 - Deposits and Investments (Continued)

The Police and Fire Retirement System and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of each investment pool as of June 30, 2005 was 157 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2005, the Police and Fire Retirement System had no credit risk exposure to borrowers. The collateral held and the fair market value of underlying securities on loan for the Police and Fire Retirement System as of June 30, 2005 were \$14,755,490 and \$14,255,729, respectively.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$15,612,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	\$ 6,029,229	11.76 years
U.S. government agency bonds or notes	18,278,816	19.03 years
Securities lending investment pool	14,755,490	157 days
Corporate bonds (pension)	25,204,989	9.83 years

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pools	\$ 11,600,678	AAA	Standard and Poor's
U.S. government agency bonds or notes	18,278,816	AA - AAA	Standard and Poor's
Corporate bonds	25,204,989	BBB - AAA	Standard and Poor's
Pension custodial accounts	2,756,492	Non-rated	
Securities lending accounts	14,755,490	Non-rated	

Concentration of Credit Risk - The City places no limit on the amount that may be invested in any one issuer; however, the City's fiduciary funds subject to Michigan Public Act 485 of 1996 are limited by law in that investments in any one issuer (other than the U.S. government) may not exceed 5 percent of total investments. At June 30, 2005, there were no investments in any one issuer (other than the U.S. government) that exceeded 5 percent of total investments for the fiduciary funds.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Local Streets Fund	\$ 8,775
	SEMSD Clean Water Initiative	
	Debt Service Fund	400
	Utility Fund	240,859
	Recreational Revenue Fund	5,723
	Internal Service Funds	6,764
	Nonmajor governmental funds	<u>146,216</u>
	Total General Fund	408,737
Local Streets Fund	Major Streets Fund	200,120
SEMSD Clean Water Initiative	SEMSD Clean Water Initiative	
Capital Projects Fund	Debt Service Fund	273,866
Nonmajor governmental funds	Major Streets Fund	287
Internal Service Funds	Nonmajor governmental funds	<u>100,765</u>
	Total interfund transfers	<u>\$ 983,775</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

Fund Transferred From	Fund Transferred To	Amount
General Fund	Major Streets Fund	\$ 46,756
	Local Streets Fund	(1) 623,097
	Recreational Revenue Fund	(1) 175,000
	Internal Service Funds	(3) 258,332
	Nonmajor governmental funds	<u>147,980</u>
	Total General Fund	1,251,165
Major Streets Fund	Local Streets Fund	(1) 463,000
	Nonmajor governmental funds	(2) <u>969,110</u>
	Total Major Streets	1,432,110
SEMSD Clean Water Initiative Debt Service Fund	SEMSD Clean Water Initiative Capital Projects Fund	(3) 1,500,621
Nonmajor governmental funds	General Fund	124,000
	Major Streets Fund	(3) 420,274
	Local Streets Fund	192,488
	Internal Service Funds	(3) <u>100,765</u>
	Total nonmajor governmental funds	<u>837,527</u>
	Total governmental funds	5,021,423
Utility Fund	General Fund	21,374
	Major Streets Fund	15,914
	Local Streets Fund	<u>37,132</u>
	Total Enterprise Funds	<u>74,420</u>
	Total	<u>\$ 5,095,843</u>

(1) Transfer of discretionary funds to be used for the benefit of the community

(2) Transfer for debt service payments

(3) Transfer for capital improvements

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Reclassifications	Balance June 30, 2005
Governmental activities:					
Other governmental capital assets:					
Capital assets not being depreciated:					
Land	\$ 10,123,862	\$ -	\$ (8,671)	\$ -	\$ 10,115,191
Construction in progress	39,708,983	3,417,907	-	(706,875)	42,420,015
Subtotal	49,832,845	3,417,907	(8,671)	(706,875)	52,535,206
Capital assets being depreciated:					
Infrastructure	67,048,584	6,195,519	(699,570)	706,875	73,251,408
Buildings and improvements	17,003,375	159,077	-	-	17,162,452
County drains	2,941,165	-	-	-	2,941,165
Land improvements	12,039,153	29,720	-	10,722	12,079,595
Furniture, fixtures, and equipment	6,507,013	437,011	(122,216)	(1,580)	6,820,228
Computer equipment	2,658,136	20,340	-	(9,142)	2,669,334
Subtotal	108,197,426	6,841,667	(821,786)	706,875	114,924,182
Accumulated depreciation:					
Infrastructure	21,253,710	4,120,760	(699,570)	-	24,674,900
Buildings and improvements	7,336,717	626,084	-	-	7,962,801
County drains	1,000,145	58,823	-	-	1,058,968
Land improvements	3,448,934	349,505	-	1,608	3,800,047
Furniture, fixtures, and equipment	2,760,467	332,213	(77,108)	7,229	3,022,801
Computer equipment	1,424,759	315,794	-	(8,837)	1,731,716
Subtotal	37,224,732	5,803,179	(776,678)	-	42,251,233
Net capital assets being depreciated	70,972,694	1,038,488	(45,108)	706,875	72,672,949
Net other governmental capital assets	120,805,539	4,456,395	(53,779)	-	125,208,155
Recreational Revenue Fund assets:					
Capital assets being depreciated:					
Buildings and improvements	2,367,593	5,184	-	-	2,372,777
Land improvements	4,653,346	5,000	-	-	4,658,346
Furniture, fixtures, and equipment	2,196,724	15,785	-	-	2,212,509
Computer equipment	13,585	-	-	-	13,585
Subtotal	9,231,248	25,969	-	-	9,257,217

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

	Balance July 1, 2004	Additions	Disposals and Adjustments	Reclassifications	Balance June 30, 2005
Governmental activities (Continued):					
Recreational Revenue Fund assets (Continued):					
Accumulated depreciation:					
Buildings and improvements	\$ 1,245,636	\$ 78,894	\$ -	\$ -	\$ 1,324,530
Land improvements	1,863,893	149,484	-	-	2,013,377
Furniture, fixtures, and equipment	1,059,886	101,243	-	-	1,161,129
Computer equipment	4,934	1,482	-	-	6,416
Subtotal	4,174,349	331,103	-	-	4,505,452
Net Recreational Revenue Fund capital assets	5,056,899	(305,134)	-	-	4,751,765
Motor Pool Fund capital assets:					
Capital assets not being depreciated - Vehicles not in service	121,328	-	-	(121,328)	-
Capital assets being depreciated:					
Buildings and improvements	345,830	-	-	-	345,830
Vehicles	8,373,216	305,409	(265,329)	121,328	8,534,624
Furniture, fixtures, and equipment	171,079	44,626	(21,915)	-	193,790
Subtotal	8,890,125	350,035	(287,244)	121,328	9,074,244
Accumulated depreciation:					
Buildings and improvements	153,905	9,437	-	-	163,342
Vehicles	4,848,275	601,416	(153,830)	-	5,295,861
Furniture, fixtures, and equipment	118,838	9,873	(12,318)	-	116,393
Subtotal	5,121,018	620,726	(166,148)	-	5,575,596
Net Motor Pool Fund capital assets being depreciated	3,769,107	(270,691)	(121,096)	121,328	3,498,648
Computer Replacement Fund capital assets -					
Capital assets being depreciated - Computer equipment	-	97,094	-	-	97,094
Accumulated depreciation - Computer equipment	-	9,709	-	-	9,709
Net Computer Replacement Fund capital assets being depreciated	-	87,385	-	-	87,385
Net Internal Service Fund capital assets	3,890,435	(183,306)	(121,096)	-	3,586,033
Governmental capital assets not being depreciated	49,954,173	3,417,907	(8,671)	(828,203)	52,535,206
Net governmental capital assets being depreciated	79,798,700	462,663	(166,204)	828,203	81,010,747
Net governmental activities capital assets	\$ 129,752,873	\$ 3,967,955	\$ (174,875)	\$ -	\$ 133,545,953

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

	Balance July 1, 2004	Additions	Disposals and Adjustments	Reclassifications	Balance June 30, 2005
Business-type activities:					
Capital assets not being depreciated -					
Construction in progress	\$ 719,422	\$ 88,178	\$ -	\$ (430,591)	\$ 377,009
Capital assets being depreciated:					
Land improvements	538,079	-	-	-	538,079
Water and sewer distribution systems	38,722,284	135,768	-	430,591	39,288,643
Buildings and improvements	5,076,577	-	-	-	5,076,577
Furniture, fixtures, and equipment	303,802	2,926	-	-	306,728
Computer equipment	415,918	-	-	-	415,918
Subtotal	45,056,660	138,694	-	430,591	45,625,945
Accumulated depreciation:					
Land improvements	183,625	17,936	-	-	201,561
Water and sewer distribution systems	17,221,242	580,149	-	-	17,801,391
Building and improvements	4,901,160	103,829	-	-	5,004,989
Furniture, fixtures, and equipment	212,781	14,315	-	-	227,096
Computer equipment	224,306	37,388	-	-	261,694
Subtotal	22,743,114	753,617	-	-	23,496,731
Net capital assets being depreciated	22,313,546	(614,923)	-	430,591	22,129,214
Net capital assets	\$ 23,032,968	\$ (526,745)	\$ -	\$ -	\$ 22,506,223

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 733,478
Public safety	523,557
Public works	4,507,025
Community and economic development	38,017
Recreation and culture	962,640
Total governmental activities	\$ 6,764,717
Business-type activities - Water and sewer	\$ 753,617

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects at year end, including the Lake St. Clair Clean Water Initiative Construction project administered by the Macomb County Drain Commission. At June 30, 2005, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
SEMSD Clean Water Initiative Capital Project	\$ 41,182,217	\$ 10,077,298

The remaining project commitment is expected to be funded through County Drain obligations.

Note 6 - Changes in General Fund Reserved Fund Balance

	Reserved For		
	Postemployment Benefits	Sanitation	Street Improvement
Reserved fund balances - July 1, 2004	\$ 363,923	\$ 4,484,851	\$ 842
Special tax levy	3,329,221	413,247	117,000
Interest on reserve balance	-	102,679	6
Sanitation expenditures	-	(5,711)	-
Transfer to Local Streets Fund	-	(20,000)	(117,000)
Postemployment benefit payments	(3,259,924)	-	-
Reserved fund balances - June 30, 2005	\$ 433,220	\$ 4,975,066	\$ 848

Note 7 - Restricted Assets

Specific assets of the Utility Fund and the Recreational Revenue Fund have been restricted for operations and maintenance, debt service, and bond reserve in connection with covenants established by revenue bond ordinances.

In addition, the City's governmental activities have funds held by the Macomb County Department of Public Works on behalf of the City to be used for construction and maintenance of storm drains, including related debt service. Unspent bond proceeds in the Twelve Mile Resurfacing Fund are required to be set aside for construction.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Restricted Assets (Continued)

The following is the detail of restricted assets at June 30, 2005:

	Governmental Activities	Business-type Activities
Cash and cash equivalents:		
Utility Fund Revenue Bonds required reserves:		
Operations and maintenance	\$ -	\$ 1,197,747
Debt service	-	49,268
Total Utility Fund	-	1,247,015
Twelve Mile Resurfacing - Unspent bond proceeds	66	-
Recreational Revenue Fund Revenue Bond required reserves:		
Operation and maintenance	128,866	-
Debt service	65,390	-
Bond reserve	346,500	-
Total Recreational Revenue Fund	540,756	-
Total cash and cash equivalents	540,822	1,247,015
Assets held by Macomb County for Storm Drains	895,342	-
Total restricted assets	<u>\$ 1,436,164</u>	<u>\$ 1,247,015</u>

Net assets have been restricted in an equivalent amount at June 30, 2005.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Retirement Plans

Plan Description

The City contributes to two single-employer defined benefit retirement plans: (1) the General Employees' Retirement System, covering general employees and (2) the Police and Fire Retirement System, covering certain police and fire department personnel. The City's and employees' obligations to contribute benefit provisions and all other requirements of the systems are established under City Charter and Michigan Act No. 345 of the Public Acts of 1937, as amended. The plans do not issue separate financial reports; however, financial statements are provided at the end of this Note.

At June 30, 2004, the date of the most recent actuarial valuation, membership in the plans consisted of the following:

	Employees' Retirement System	Police and Fire Retirement System
Retirees and beneficiaries of deceased retirees currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>215</u>	<u>170</u>
Current employees:		
Vested	59	78
Nonvested	<u>86</u>	<u>52</u>
Total	<u>145</u>	<u>130</u>

Annual Pension Costs

For the year ended June 30, 2005, the City's annual pension cost of \$1,024,702 for the Police and Fire Retirement System and \$1,605,170 for the General Employees' Retirement System was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2003 using the entry age actuarial cost method.

Note 8 - Retirement Plans (Continued)

Significant actuarial assumptions used include the assumption that benefits will increase with cost of living adjustments of 2.5 percent to 5 percent at age 60 or five years after retirement, whichever is later for the General Employees' Retirement System and whichever is first for the Police and Fire Retirement System, with additional increases of 2.5 percent to 5 percent three to seven years after the first increase. Other significant assumptions include the following:

	Employees' Retirement System	Police and Fire Retirement System
Rate of return on the investment of present and future assets, compounded annually	8%*	7.5%*
Projected salary increases, depending on age, attributable to seniority/merit, compounded annually	4.5-9.4%*	4.5-7.5%*

* Includes an inflation component of 4.5 percent

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis for the General Employees' Retirement System and on an open basis for the Police and Fire Retirement System. The remaining amortization period is 10 years if overfunded and 25 years if underfunded for the Police and Fire Retirement System and 21 years for the General Employees' Retirement System.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Retirement Plans (Continued)

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 2 percent to 5 percent and 0 percent to 1.5 percent of gross wages for the Police and Fire Retirement System and General Employees' Retirement System, respectively.

The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

The required supplementary information (see table of contents) contained in the additional information is designed to provide information about the plans' progress in accumulating sufficient assets to pay benefits when due.

Reserve Balances

The reserves for the retirement systems at June 30, 2005 consist of the following:

	General Employees' Retirement System	Police and Fire Retirement System
Legally required reserves:		
Reserved for employee contributions	\$ 589,301	\$ 3,843,595
Reserved for retiree benefit payments	22,762,437	62,909,882
Additional reserves:		
Reserved for employer contributions	18,522,411	24,364,915
Reserved for excess earnings distribution	516,017	2,507,582
Total	<u>\$ 42,390,166</u>	<u>\$ 93,625,974</u>

Three-year trend information is as follows:

	Employees' Retirement System			Police and Fire Retirement System		
	Fiscal Year Ended June 30			Fiscal Year Ended June 30		
	2005	2004	2003	2005	2004	2003
Annual pension cost (APC)	\$ 1,605,170	\$ 1,420,497	\$ 1,050,063	\$ 1,024,702	\$ 86,089	\$ 77,559
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Retirement Plans (Continued)

Condensed financial statements of the City's defined benefit retirement plans and retirement health care plan follow:

	General Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retiree Health Care Fund
Assets			
Cash	\$ -	\$ -	\$ 68,899
Investments	42,134,294	14,755,489	1,525,803
Other receivables	357,532	217,918	-
Accrued interest receivable	157,324	401,648	5,027
Total assets	42,649,150	15,375,055	1,599,729
Liabilities			
Accrued and other liabilities	258,984	1,349,664	-
Amounts due to broker under securities lending agreement	-	14,755,490	-
Total liabilities	258,984	16,105,154	-
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 42,390,166</u>	<u>\$ (730,099)</u>	<u>\$ 1,599,729</u>

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Retirement Plans (Continued)

	General Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retiree Health Care Fund
Additions			
Investment income:			
Interest and dividends	\$ 1,387,414	\$ 2,482,003	\$ 86,417
Net increase in fair value of investments	2,538,767	5,086,309	-
Less investment expenses	<u>(230,704)</u>	<u>(418,735)</u>	<u>(16,420)</u>
Net investment income	3,695,477	7,149,577	69,997
Securities lending income:			
Interest and fees	-	399,001	-
Less borrower rebates and bank fees	<u>-</u>	<u>(360,507)</u>	<u>-</u>
Net securities lending income	-	38,494	-
Contributions:			
Employer	1,605,170	1,024,702	250,000
Employee	<u>9,841</u>	<u>482,071</u>	<u>-</u>
Total contributions	<u>1,615,011</u>	<u>1,506,773</u>	<u>250,000</u>
Total additions	5,310,488	8,694,844	319,997
Deductions			
Benefit payments	3,477,842	6,173,645	-
Refunds of contributions	641	7,135	-
Administrative expenses	<u>23,144</u>	<u>26,433</u>	<u>-</u>
Total deductions	<u>3,501,627</u>	<u>6,207,213</u>	<u>-</u>
Net Increase	1,808,861	2,487,631	319,997
Net Assets Held in Trust for Pension			
Benefits			
Beginning of year	<u>40,581,305</u>	<u>91,138,343</u>	<u>1,279,732</u>
End of year	<u>\$ 42,390,166</u>	<u>\$ 93,625,974</u>	<u>\$ 1,599,729</u>

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Fund Financial Statements			Government-wide Financial Statements
	Unavailable	Unearned	Total	Unearned
Delinquent property taxes	\$ 416,629	\$ -	\$ 416,629	\$ -
Community Development Block Grant revenue not earned	-	87,275	87,275	87,275
Other grant revenue	15,424	4,931	20,355	4,931
Total restricted assets	<u>\$ 432,053</u>	<u>\$ 92,206</u>	<u>\$ 524,259</u>	<u>\$ 92,206</u>

Note 10 - Leases

Capital Leases - The City has entered into lease agreements as lessee for financing the purchase of heating and air conditioning units and various other city renovations. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date (see Note 11). The cost and accumulated depreciation of the assets under capital leases as of June 30, 2005 total approximately \$1,515,000 and \$635,000, respectively. The future minimum lease obligations and the net present value are as follows:

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 10 - Leases (Continued)

The future minimum lease payments for all capital leases for the years ending June 30, 2006 through June 30, 2010 and in total are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2006	\$ 210,845
2007	176,366
2008	141,886
2009	96,546
2010	<u>51,204</u>
Total minimum lease payments	676,847
Less amount representing interest	<u>(51,794)</u>
Present value at June 30, 2005	<u><u>\$ 625,053</u></u>

Note 11 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities. Compensated absences are typically liquidated with funds from the General Fund, Local Streets Fund, Recreational Revenue Fund, Utility Fund, and the Internal Service Funds.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 11 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Governmental activities:							
Other governmental obligations:							
Milk River Drain Drainage District:							
Amount of Issue - \$93,464	2.50%-	\$6,933-					
Maturing through 2013	8.50%	\$8,211	\$ 67,763	\$ -	\$ (6,745)	\$ 61,018	\$ 6,933
2001 Lake St. Clair Clean Water Initiative:							
Amount of Issue - \$34,909,875	2.500%-	\$114,345 -					
Maturing through 2029	5.125%	\$2,110,969	32,612,745	1,699,146	(1,241,933)	33,069,958	1,698,064
General obligation bonds:							
1990 Michigan Transportation Fund Bonds:							
Amount of Issue - \$1,800,000							
Maturing through 2006	5.00%	\$200,000	380,000	-	(180,000)	200,000	200,000
1999 Michigan Transportation Fund Refunding Bonds:							
Amount of Issue - \$1,625,000	3.70% -						
Maturing through 2006	3.80%	\$255,000	510,000	-	(255,000)	255,000	255,000
2001 Michigan Transportation Fund Bonds:							
Amount of Issue - \$4,200,000	3.20% -	\$345,000 -					
Maturing through 2013	4.25%	\$465,000	4,005,000	-	(345,000)	3,660,000	345,000
1997 Building Authority Arena bonds:							
Amount of Issue - \$1,500,000	4.80% -	\$105,000 -					
Maturing through 2012	5.30%	\$140,000	950,000	-	(100,000)	850,000	105,000
Capital lease obligations:							
Honeywell:							
Amount of Issue - \$574,272		\$42,375 -					
Maturing through 2009	3.49%	\$138,705	509,017	-	(133,964)	375,053	138,705
National City Bank:							
Amount of Issue - \$500,000							
Maturing through 2009	4.82%	\$50,000	300,000	-	(50,000)	250,000	50,000
Total capital lease obligations			809,017	-	(183,964)	625,053	188,705
Other long-term obligations:							
Noncurrent portion of general liability claims and workers' compensation (Note 12)							
			921,396	-	(177,436)	743,960	62,623
Compensated absences							
			4,408,022	1,730,856	(1,600,072)	4,538,806	1,292,894
Total other long-term obligations			5,329,418	1,730,856	(1,777,508)	5,282,766	1,355,517
Subtotal - Other governmental obligations			44,663,943	3,430,002	(4,090,150)	44,003,795	4,154,219

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 11 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Recreational revenue obligations:							
Revenue Bonds:							
2003 Recreational Revenue Refunding Bonds:							
Amount of Issue - \$3,980,000	2.00% -	\$265,000 -					
Maturing through 2016	4.30%	\$375,000	\$ 3,730,000	\$ -	\$ (265,000)	\$ 3,465,000	\$ 270,000
Less unamortized discount on issuance			(138,771)	-	26,234	(112,537)	-
Deferred amount on refunding			(382,026)	-	72,220	(309,806)	-
Other long-term obligations:							
Noncurrent portion of general liability claims and workers' compensation (Note 12)			18,347	-	98,893	117,240	117,240
Compensated absences			27,030	13,980	(9,606)	31,404	9,206
Subtotal - Recreational revenue obligations			3,254,580	13,980	(77,259)	3,191,301	396,446
Internal Service Fund Obligations - Motor Pool Fund - Other long-term obligations - Compensated absences			22,596	12,238	(7,977)	26,857	6,848
Total governmental activities			47,941,119	3,456,220	(4,175,386)	47,221,953	4,557,513
Business-type activities:							
General obligation bonds - Macomb County							
Water Supply System:							
Amount of Issue - \$1,500,000							
Maturing through 2005	4.85%	\$160,000	160,000	-	(160,000)	-	-
Revenue bonds:							
Water and Sewer Revenue Bonds:							
Series 1997							
Amount of Issue - \$2,700,000	5.000% -	\$110,000 -					
Maturing through 2016	5.125%	\$220,000	2,055,000	-	(2,055,000)	-	-
2004 refunding bond							
Amount of issue - \$2,050,000	2.75% -	\$130,000 -					
Maturing through 2017	3.90%	\$215,000	-	2,050,000	-	2,050,000	130,000
Less unamortized discount on issuance			-	(60,180)	-	(60,180)	-
Deferred amount on refunding			-	(44,820)	-	(44,820)	-
Total bond obligations			2,215,000	1,945,000	(2,215,000)	1,945,000	130,000
Other long-term obligations:							
Noncurrent portion of general liability claims and workers' compensation (Note 12)			729	-	(729)	-	-
Compensated absences			169,496	123,329	(153,085)	139,740	36,234
Total business-type activities			2,385,225	2,068,329	(2,368,814)	2,084,740	166,234
Total governmental and business- type activities			\$ 50,326,344	\$ 5,524,549	\$ (6,544,200)	\$ 49,306,693	\$ 4,723,747
Component units - 1997 Tax Increment Finance							
Authority Development Bonds:							
Amount of Issue - \$3,500,000	4.70% -	\$230,000 -					
Maturing through 2012	5.25%	\$415,000	\$ 2,595,000	\$ -	\$ (230,000)	\$ 2,365,000	\$ 245,000

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 11 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond, note, and capital lease obligations are as follows:

	Governmental Activities								
	General Obligation			Recreational Revenue			Total Governmental Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 2,798,701	\$ 2,104,418	\$ 4,903,119	\$ 176,039	\$ 121,590	\$ 297,629	\$ 2,974,740	\$ 2,226,008	\$ 5,200,748
2007	2,374,587	2,005,386	4,379,973	186,427	116,190	302,617	2,561,014	2,121,576	4,682,590
2008	2,420,995	1,924,184	4,345,179	201,108	109,590	310,698	2,622,103	2,033,774	4,655,877
2009	2,452,275	1,840,001	4,292,276	209,900	101,040	310,940	2,662,175	1,941,041	4,603,216
2010	2,483,390	1,754,708	4,238,098	224,182	92,340	316,522	2,707,572	1,847,048	4,554,620
2011-2015	12,481,147	7,445,075	19,926,222	1,670,000	289,455	1,959,455	14,151,147	7,734,530	21,885,677
2016-2020	12,258,148	5,396,726	17,654,874	375,000	16,125	391,125	12,633,148	5,412,851	18,045,999
2021-2025	1,451,786	437,508	1,889,294	-	-	-	1,451,786	437,508	1,889,294
Total	\$ 38,721,029	\$ 22,908,006	\$ 61,629,035	\$ 3,042,656	\$ 846,330	\$ 3,888,986	\$ 41,763,685	\$ 23,754,336	\$ 65,518,021

	Business-type Activities			Component Units		
	Utility Fund			TIFA		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 125,088	\$ 66,798	\$ 191,886	\$ 245,000	\$ 112,788	\$ 357,788
2007	140,963	62,948	203,911	285,000	99,996	384,996
2008	141,240	58,823	200,063	315,000	85,368	400,368
2009	141,974	54,510	196,484	335,000	54,510	389,510
2010	152,116	49,660	201,776	375,000	51,599	426,599
2011-2015	852,154	275,378	1,127,532	810,000	42,852	852,852
2016-2020	391,465	16,477	407,942	-	-	-
Total	\$ 1,945,000	\$ 584,594	\$ 2,529,594	\$ 2,365,000	\$ 447,113	\$ 2,812,113

Current Refundings - During the year, the City issued \$2,050,000 of Water and Sewer Revenue Refunding bonds with an average interest rate of 3.54 percent. The net proceeds of \$1,989,800 (after payment of \$60,180 in underwriting fees, insurance, and other issuance costs) were used to currently refund \$1,945,000 of outstanding 1997 Water and Sewer Revenue Bonds with an average interest rate of 5.12 percent. The refunding decreased total debt service payments over the next 12 years by approximately \$266,000, resulting in an economic gain of approximately \$88,000.

In prior years, the City also defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2005, \$2,825,000 of bonds outstanding are considered defeased.

City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2005

Note 12 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The City participates in the Michigan Municipal Risk Management Authority (the "Authority") risk pool program for claims related to liability, auto, and property. The program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although funds are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City is self-funded for workers' compensation and medical benefits up to a retention amount, at which time the City's reinsurance coverage begins. Listed below is an analysis by category of the City's risk of loss.

The City estimates the liability for property loss, general liability, workers' compensation, and medical benefits claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The liability is based on individual claims and management's evaluation of experience with respect to the probable number and nature of claims. Any adjustments resulting from the settlement of losses will be reflected in earnings at the time the adjustments are determined. The estimated liability for property loss, general liability, and medical claims is recorded within the governmental activities column of the statement of net assets. The estimated liability for workers' compensation is recorded within the governmental activities and business-type activities columns of the statement of net assets. Changes in the estimated liability for the past two fiscal years were as follows:

	Liability, Auto, and Property		Workers' Compensation		Medical Benefit Plan	
	2005	2004	2005	2004	2005	2004
Estimated liability -						
Beginning of year	\$ 381,783	\$ 462,985	\$ 510,106	\$ 577,556	\$ (39,123)	\$ 185,835
Estimated claims						
incurred, including						
changes in estimates	305,055	231,509	176,082	251,317	4,783,958	4,350,954
Claim payments	(364,472)	(312,711)	(191,850)	(318,767)	(4,700,339)	(4,575,912)
Estimated liability -						
End of year	\$ 322,366	\$ 381,783	\$ 494,338	\$ 510,106	\$ 44,496	\$ (39,123)

Note 12 - Risk Management (Continued)

Settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 13 - Other Postemployment Benefits

In addition to providing pension benefits, the City provides certain health care benefits to all full-time employees and their spouses and dependents upon retirement, in accordance with labor contracts. As of the most recent actuarial valuations dated June 30, 2004, 347 retirees were eligible. The City includes pre-Medicare retirees and their dependents in its health care plan, with no contribution required by the participants. The City provides Medicare supplemental benefits for retirees eligible for Medicare. Expenditures for postemployment health care insurance are recognized as the insurance premiums become due. Premiums and benefits for the retirees, their spouses, and dependents are paid annually from the General Fund and the Employees' Retirement Systems. Payments totaled approximately \$3,409,000 for the year ended June 30, 2005.

Note 14 - Joint Ventures

The City is a member of the Southeast Macomb Sanitary District, which provides sewage disposal to participating municipalities in Macomb County, Michigan. Other members include the cities of Roseville and Eastpointe, Michigan. The City appoints one member to the joint venture's governing board, who then approve the annual budgets. The City's equity interest of \$6,930,727 is recorded in the Utility Fund financial statements and within the business-type activities column in the statement of net assets. Complete financial statements for the South Macomb Sanitary District can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, MI 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 14 - Joint Venture (Continued)

The City is a member of the South Macomb Disposal Authority, which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Center Line, Roseville, Eastpointe, and Warren, Michigan. The City appoints one member to the joint venture's governing board, who then approve the annual budgets. The City's equity interest in the Authority's operating reserve of \$742,475 is recorded within the governmental activities column of the statement of net assets. The Authority also has reserves totaling approximately \$7,500,000 that have been designated for self-insurance activities; the participating community's equity interest in the insurance reserve is not determinable. Complete financial statements for the South Macomb Disposal Authority can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, MI 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 15 - Upcoming Accounting and Reporting Change

The Governmental Accounting Standards Board has recently issued Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new standard will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Required Supplemental Information

City of St. Clair Shores, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued on subsequent page) Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property taxes	\$ 20,946,050	\$ 20,704,050	\$ 20,703,560	\$ (490)
State-shared revenue, state grants, and entitlements	5,808,068	5,854,869	6,328,309	473,440
Federal grants	403,000	615,059	536,108	(78,951)
Licenses and permits	1,560,400	1,328,400	1,400,042	71,642
Charges for services:				
Major and local streets	791,865	791,865	791,865	-
Municipal activities building	1,111,697	1,111,697	1,065,678	(46,019)
Recreation	320,525	306,525	294,998	(11,527)
Ambulance	767,000	871,000	928,698	57,698
Water and sewer administrative charge	1,238,297	1,259,671	1,238,297	(21,374)
Library reimbursements	74,000	74,000	95,374	21,374
Motorpool reimbursements	217,103	217,103	217,103	-
Other charges for services	1,717,138	1,369,438	1,316,352	(53,086)
Total charges for services	6,237,625	6,001,299	5,948,365	(52,934)
Investment income	205,000	363,000	428,606	65,606
Court fines and forfeitures:				
District Court fees	1,750,000	1,990,000	2,049,307	59,307
Book fines and fees	52,400	52,400	47,521	(4,879)
Total court fines and forfeitures	1,802,400	2,042,400	2,096,828	54,428
Other income	448,000	327,000	387,570	60,570
Total revenues	37,410,543	37,236,077	37,829,388	593,311
Expenditures				
General government:				
Legislative	76,195	76,195	72,410	3,785
Judicial	1,554,738	1,547,738	1,535,445	12,293
Executive	477,436	495,553	465,411	30,142
Election	547,731	555,892	513,796	42,096
Finance	1,036,517	1,184,557	991,095	193,462
Attorney	410,000	410,000	278,515	131,485
Building maintenance	833,348	831,963	771,208	60,755
Assessor	404,977	389,884	372,511	17,373
Information systems	403,918	412,038	359,146	52,892
General government	4,930,344	4,760,344	3,973,091	787,253
Boards and commissions	85,742	95,742	78,748	16,994
Insurance/Claims	1,110,863	1,436,863	596,475	840,388
Total general government	11,871,809	12,196,769	10,007,851	2,188,918

City of St. Clair Shores, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures (Continued)				
Public safety:				
Police	\$ 10,381,480	\$ 10,454,615	\$ 10,252,881	\$ 201,734
Fire	5,460,855	5,506,996	5,307,577	199,419
Total public safety	15,842,335	15,961,611	15,560,458	401,153
Public works:				
Public works administration	230,141	209,944	190,358	19,586
Sanitation	2,974,745	2,993,456	2,919,280	74,176
Total public works	3,204,886	3,203,400	3,109,638	93,762
Community and economic development	2,475,287	2,054,545	2,159,465	(104,920)
Recreational and cultural:				
Parks and recreation administration	627,243	615,991	592,393	23,598
Recreation	258,725	258,725	249,647	9,078
Parks	958,329	987,337	891,716	95,621
Arena	816,007	801,082	750,498	50,584
Senior center	452,550	455,920	403,568	52,352
Library and information services	1,935,318	1,843,956	1,805,938	38,018
Total recreational and cultural	5,048,172	4,963,011	4,693,760	269,251
Interest and fiscal changes	-	-	2,556	(2,556)
Transfers out	1,097,302	1,271,554	1,501,165	(229,611)
Total expenditures	39,539,791	39,650,890	37,034,893	2,615,997
Excess of Revenues Over (Under) Expenditures	(2,129,248)	(2,414,813)	794,495	3,209,308
Fund Balance - Beginning of year	11,551,616	11,551,616	11,551,616	-
Fund Balance - End of year	\$ 9,422,368	\$ 9,136,803	\$ 12,346,111	\$ 3,209,308

City of St. Clair Shores, Michigan

	Major Streets			
	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
State-shared revenue, state grants, and entitlements	2,580,018	2,580,018	2,558,156	(21,862)
Right-of-way fees	-	-	-	-
Investment income	10,000	10,000	16,196	6,196
Other income	17,400	17,400	25,574	8,174
Transfers in	472,894	472,670	482,944	10,274
Total revenues	3,080,312	3,080,088	3,082,870	2,782
Expenditures				
General government	266,591	266,575	262,170	4,405
Public works	2,340,403	3,007,528	2,043,427	964,101
Transfers out	1,234,428	1,281,428	1,432,110	(150,682)
Total expenditures	3,841,422	4,555,531	3,737,707	817,824
Excess of Revenues Over (Under) Expenditures	(761,110)	(1,475,443)	(654,837)	820,606
Fund Balances - Beginning of year	1,498,936	1,498,936	1,498,936	-
Fund Balances - End of year	\$ 737,826	\$ 23,493	\$ 844,099	\$ 820,606

**Required Supplemental Information
Budgetary Comparison Schedule
Major Special Revenue Funds
Year Ended June 30, 2005**

Local Streets			
Original Budget	Final Budget	Actual	Variance with Final Budget
\$ 1,625,106	\$ 1,625,106	\$ 1,624,613	\$ (493)
1,007,076	1,007,076	1,000,326	(6,750)
206,000	206,000	173,858	(32,142)
10,000	10,000	12,002	2,002
48,600	48,600	87,481	38,881
<u>1,114,753</u>	<u>1,305,767</u>	<u>1,315,717</u>	<u>9,950</u>
4,011,535	4,202,549	4,213,997	11,448
622,046	622,008	616,917	5,091
3,389,249	4,339,607	4,069,931	269,676
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>4,011,295</u>	<u>4,961,615</u>	<u>4,686,848</u>	<u>274,767</u>
240	(759,066)	(472,851)	286,215
<u>762,057</u>	<u>762,057</u>	<u>762,057</u>	<u>-</u>
<u>\$ 762,297</u>	<u>\$ 2,991</u>	<u>\$ 289,206</u>	<u>\$ 286,215</u>

City of St. Clair Shores, Michigan

Required Supplemental Information Retirement Systems Schedule of Funding Progress June 30, 2005

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	Unfunded (Overfunded) AAL as a Percentage of Covered Payroll
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General Employees' Retirement System

06/30/99	\$ 43,228,598	\$ 39,739,918	\$ (3,488,680)	108.8	\$ 7,090,025	(49.2)
06/30/00	45,543,504	41,410,247	(4,133,257)	110.0	7,543,720	(54.8)
06/30/01	45,968,083	42,648,906	(3,319,177)	107.8	7,316,759	(45.4)
06/30/02	43,840,530	45,610,034	1,769,504	96.1	7,868,956	22.5
06/30/03	42,168,775	47,200,490	5,031,715	89.3	7,324,919	68.7
06/30/04	41,259,961	49,337,849	8,077,888	83.6	6,969,930	115.9

Police and Fire Retirement System

06/30/99	\$ 101,745,561	\$ 77,538,939	\$ (24,206,622)	131.2	\$ 8,426,850	(287.3)
06/30/00	110,243,719	81,816,157	(28,427,562)	134.7	9,169,906	(310.0)
06/30/01	113,344,804	86,607,994	(26,736,810)	130.9	9,353,854	(285.8)
06/30/02	108,832,118	90,182,317	(18,649,801)	120.7	9,566,435	(195.0)
06/30/03	101,683,192	93,967,332	(7,715,860)	108.2	9,387,845	(82.2)
06/30/04	94,640,250	98,335,479	3,695,229	96.2	9,687,275	38.1

City of St. Clair Shores, Michigan

Required Supplemental Information Retirement Systems Schedule of Funding Progress (Continued) June 30, 2005

The schedule of employer contributions is as follows:

General Employees' Retirement System

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2000	\$ 924,156	100
2001	880,726	100
2002	894,141	100
2003	1,050,063	100
2004	1,420,497	100
2005	1,605,170	100

Police and Fire Retirement System

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2000	\$ 936,813	100
2001	55,133	100
2002	69,906	100
2003	77,559	100
2004	86,089	100
2005	1,024,702	100

Additional information as of June 30, 2004, the latest actuarial valuation, follows:

	General Employees' Retirement System	Police and Fire Retirement System
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent, closed	Level percent, open
Remaining amortization period	21 years	10 years if overfunded 25 years if underfunded
Asset valuation method	4-year smoothed market	4-year smoothed market
Actuarial assumptions:		
Investment rate of return*	8.00%	7.5%
Projected salary increases*	4.5%-9.4%	4.5%-7.5%
*Includes inflation at	4.5%	4.5%

City of St. Clair Shores, Michigan

Note to Required Supplemental Information June 30, 2005

Note - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedules for the General and Major Special Revenue Funds are presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenues, expenditures, and changes in fund balances):

	General Fund		Major Special Revenue Funds			
			Major Streets		Local Streets	
	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 34,891,527	\$ 32,991,241	\$ 2,599,926	\$ 2,305,597	\$ 2,898,280	\$ 4,686,848
Transfers recorded as revenue and expenditures	145,374	1,251,165	482,944	1,432,110	1,315,717	-
Reimbursements from other funds recorded as revenue	<u>2,792,487</u>	<u>2,792,487</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amounts per budget statement	<u>\$ 37,829,388</u>	<u>\$ 37,034,893</u>	<u>\$ 3,082,870</u>	<u>\$ 3,737,707</u>	<u>\$ 4,213,997</u>	<u>\$ 4,686,848</u>

Other Supplemental Information

City of St. Clair Shores, Michigan

	Nonmajor Special Revenue Funds					
	Library State Aid	Library Penal	Court Building	Drug Law Enforcement	Community Development Block Grant	Family Rental Program
Assets						
Cash and investments	\$ 30,691	\$ 26,603	\$ 610,471	\$ 633,947	\$ 99,836	\$ 5,610
Due from other governmental units	27,450	92,763	-	-	169,455	-
Due from other funds	-	-	-	-	-	-
Restricted assets	-	-	-	-	-	-
Total assets	<u>\$ 58,141</u>	<u>\$ 119,366</u>	<u>\$ 610,471</u>	<u>\$ 633,947</u>	<u>\$ 269,291</u>	<u>\$ 5,610</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 13,724	\$ -	\$ 230	\$ -	\$ 9,975	\$ -
Accrued and other liabilities	-	-	-	5,032	-	2,782
Due to other funds	21,000	53,000	-	-	172,041	940
Deferred revenue	-	-	-	-	87,275	-
Total liabilities	34,724	53,000	230	5,032	269,291	3,722
Fund Balances - Unreserved	<u>23,417</u>	<u>66,366</u>	<u>610,241</u>	<u>628,915</u>	<u>-</u>	<u>1,888</u>
Total liabilities and fund balances	<u>\$ 58,141</u>	<u>\$ 119,366</u>	<u>\$ 610,471</u>	<u>\$ 633,947</u>	<u>\$ 269,291</u>	<u>\$ 5,610</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005**

Nonmajor Debt Service Funds						Nonmajor Capital Projects Fund	
Debt Service	Building Authority	1989 MVH	1990 MVH	1991 MVH	1994 MVH	Twelve Mile Resurfacing	Total Nonmajor Governmental Funds
\$ 113,934	\$ 34,580	\$ 4,239	\$ -	\$ 54	\$ 883	\$ -	\$ 1,560,848
-	-	-	-	-	-	-	289,668
-	-	-	-	-	-	287	287
-	-	-	-	-	-	66	66
\$ 113,934	\$ 34,580	\$ 4,239	\$ -	\$ 54	\$ 883	\$ 353	\$ 1,850,869
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 353	\$ 24,282
1,053	-	-	-	-	-	-	8,867
-	-	-	-	-	-	-	246,981
-	-	-	-	-	-	-	87,275
1,053	-	-	-	-	-	353	367,405
112,881	34,580	4,239	-	54	883	-	1,483,464
\$ 113,934	\$ 34,580	\$ 4,239	\$ -	\$ 54	\$ 883	\$ 353	\$ 1,850,869

City of St. Clair Shores, Michigan

Nonmajor Special Revenue Funds

	Library State Aid	Library Penal	Court Building	Drug Law Enforcement	Community Development Block Grant	Family Rental Program
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	909,581	-
State sources	54,964	-	-	-	-	-
Interest income	371	532	8,802	10,151	-	-
Other	-	92,763	265,896	323,635	-	27,675
Total revenue	55,335	93,295	274,698	333,786	909,581	27,675
Expenditures						
Current:						
General government	-	-	475	-	84,268	-
Public safety	-	-	-	206,180	-	-
Public works	-	-	-	-	-	-
Community and economic development	-	-	-	-	532,060	27,185
Recreation and culture	27,436	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	27,436	-	475	206,180	616,328	27,185
Excess of Revenue Over (Under)						
Expenditures	27,899	93,295	274,223	127,606	293,253	490
Other Financing Sources (Uses)						
Transfers in	-	-	-	-	-	-
Transfers out	(21,000)	(53,000)	(50,000)	-	(293,253)	-
Total other financing sources (uses)	(21,000)	(53,000)	(50,000)	-	(293,253)	-
Net Change in Fund Balances	6,899	40,295	224,223	127,606	-	490
Fund Balances - Beginning of year	16,518	26,071	386,018	501,309	-	1,398
Fund Balances - End of year	<u>\$ 23,417</u>	<u>\$ 66,366</u>	<u>\$ 610,241</u>	<u>\$ 628,915</u>	<u>\$ -</u>	<u>\$ 1,888</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances (Deficit) - Nonmajor Governmental Funds
Year Ended June 30, 2005

Nonmajor Debt Service Funds						Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
Debt Service	Building Authority	1989 MVH	1990 MVH	1991 MVH	1994 MVH	Twelve Mile Resurfacing	
\$ 370,334	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 370,334
-	-	-	-	-	-	-	909,581
-	-	-	-	-	-	-	54,964
3,577	608	-	-	-	2	11,449	35,492
-	-	-	-	-	-	-	709,969
373,911	608	-	-	-	2	11,449	2,080,340
-	-	-	-	-	-	-	84,743
-	-	-	-	-	-	-	206,180
377,141	-	-	-	-	-	-	377,141
-	-	-	-	-	-	-	559,245
-	-	-	-	-	-	-	27,436
6,745	100,000	-	180,000	255,000	345,000	-	886,745
1,699	47,980	-	19,500	19,425	149,898	-	238,502
385,585	147,980	-	199,500	274,425	494,898	-	2,379,992
(11,674)	(147,372)	-	(199,500)	(274,425)	(494,896)	11,449	(299,652)
-	147,980	-	199,500	274,425	494,898	287	1,117,090
-	-	-	(106)	-	-	(420,168)	(837,527)
-	147,980	-	199,394	274,425	494,898	(419,881)	279,563
(11,674)	608	-	(106)	-	2	(408,432)	(20,089)
124,555	33,972	4,239	106	54	881	408,432	1,503,553
<u>\$ 112,881</u>	<u>\$ 34,580</u>	<u>\$ 4,239</u>	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 883</u>	<u>\$ -</u>	<u>\$ 1,483,464</u>

City of St. Clair Shores, Michigan

Special Revenue Funds						
	Library State Aid			Library Penal		
	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	-	-
State sources	47,000	54,964	7,964	55,000	-	(55,000)
Interest income	500	371	(129)	1,000	532	(468)
Other	-	-	-	-	92,763	92,763
Transfers in	-	-	-	-	-	-
Total revenue	47,500	55,335	7,835	56,000	93,295	37,295
Expenditures						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Public works department	-	-	-	-	-	-
Community and economic development	-	-	-	-	-	-
Recreation and culture	23,500	27,436	(3,936)	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Transfers out	21,000	21,000	-	53,000	53,000	-
Total expenditures	44,500	48,436	(3,936)	53,000	53,000	-
Excess of Revenue Over (Under)						
Expenditures	3,000	6,899	3,899	3,000	40,295	37,295
Fund Balances - Beginning of year	16,518	16,518	-	26,071	26,071	-
Fund Balances (Deficit) - End of year	<u>\$ 19,518</u>	<u>\$ 23,417</u>	<u>\$ 3,899</u>	<u>\$ 29,071</u>	<u>\$ 66,366</u>	<u>\$ 37,295</u>

Other Supplemental Information
Budgetary Comparison Schedule - Nonmajor Governmental Funds
(Continued on subsequent pages)
Year Ended June 30, 2005

Special Revenue Funds

Court Building			Drug Law Enforcement			Community Development Block Grant		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	2,041,325	909,581	(1,131,744)
-	-	-	-	-	-	-	-	-
7,200	8,802	1,602	9,000	10,151	1,151	-	-	-
251,600	265,896	14,296	229,300	323,635	94,335	-	-	-
-	-	-	-	-	-	-	-	-
258,800	274,698	15,898	238,300	333,786	95,486	2,041,325	909,581	(1,131,744)
30,000	475	29,525	-	-	-	84,268	84,268	-
-	-	-	188,330	206,180	(17,850)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,379,696	532,060	847,636
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
50,000	50,000	-	-	-	-	577,361	293,253	284,108
80,000	50,475	29,525	188,330	206,180	(17,850)	2,041,325	909,581	1,131,744
178,800	224,223	45,423	49,970	127,606	77,636	-	-	-
386,018	386,018	-	501,309	501,309	-	-	-	-
<u>\$ 564,818</u>	<u>\$ 610,241</u>	<u>\$ 45,423</u>	<u>\$ 551,279</u>	<u>\$ 628,915</u>	<u>\$ 77,636</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of St. Clair Shores, Michigan

	Special Revenue Funds			Debt Service Funds		
	Family Rental Program			Debt Service		
	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ 370,573	\$ 370,334	\$ (239)
Federal sources	-	-	-	-	-	-
State sources	-	-	-	-	-	-
Interest income	500	-	(500)	-	3,577	3,577
Other	25,000	27,675	2,675	-	-	-
Transfers in	-	-	-	-	-	-
Total revenue	25,500	27,675	2,175	370,573	373,911	3,338
Expenditures						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Public works department	-	-	-	362,129	377,141	(15,012)
Community and economic development	21,000	27,185	(6,185)	-	-	-
Recreation and culture	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	6,745	6,745	-
Interest and fiscal charges	-	-	-	1,699	1,699	-
Transfers out	-	-	-	-	-	-
Total expenditures	21,000	27,185	(6,185)	370,573	385,585	(15,012)
Excess of Revenue Over (Under) Expenditures	4,500	490	(4,010)	-	(11,674)	(11,674)
Fund Balances - Beginning of year	1,398	1,398	-	124,555	124,555	-
Fund Balances (Deficit) - End of year	<u>\$ 5,898</u>	<u>\$ 1,888</u>	<u>\$ (4,010)</u>	<u>\$ 124,555</u>	<u>\$ 112,881</u>	<u>\$ (11,674)</u>

Other Supplemental Information
Budgetary Comparison Schedule
Nonmajor Governmental Funds (Continued)
Year Ended June 30, 2005

Debt Service Funds					
Building Authority			1989 MVH		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	608	608	-	-	-
-	-	-	-	-	-
<u>148,580</u>	<u>147,980</u>	<u>(600)</u>	<u>-</u>	<u>-</u>	<u>-</u>
148,580	148,588	8	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
100,000	100,000	-	-	-	-
48,580	47,980	600	-	-	-
-	-	-	-	-	-
<u>148,580</u>	<u>147,980</u>	<u>600</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	608	608	-	-	-
<u>33,972</u>	<u>33,972</u>	<u>-</u>	<u>4,239</u>	<u>4,239</u>	<u>-</u>
<u>\$ 33,972</u>	<u>\$ 34,580</u>	<u>\$ 608</u>	<u>\$ 4,239</u>	<u>\$ 4,239</u>	<u>\$ -</u>

City of St. Clair Shores, Michigan

Debt Service Funds						
	1990 MVH			1991 MVH		
	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest income	-	-	-	-	-	-
Other income						
Transfers in	199,500	199,500	-	274,625	274,425	(200)
Total revenue	199,500	199,500	-	274,625	274,425	(200)
Expenditures						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Public works department	-	-	-	-	-	-
Community and economic development	-	-	-	-	-	-
Recreation and culture	-	-	-	-	-	-
Debt service:						
Principal	180,000	180,000	-	255,000	255,000	-
Interest and fiscal charges	19,500	19,500	-	19,625	19,425	200
Transfers out	-	106	106	-	-	-
Total expenditures	199,500	199,606	106	274,625	274,425	200
Excess of Revenue Over (Under)						
Expenditures	-	(106)	(106)	-	-	-
Fund Balances - Beginning of year	106	106	-	54	54	-
Fund Balances (Deficit) - End of year	\$ 106	\$ -	\$ (106)	\$ 54	\$ 54	\$ -

**Other Supplemental Information
Budgetary Comparison Schedule
Nonmajor Governmental Funds (Continued)
Year Ended June 30, 2005**

Debt Service Funds					
1994 MVH			SEMSD Clean Water Initiative		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
\$ -	\$ -	\$ -	\$ 3,519,210	\$ 3,518,290	\$ (920)
-	2	2	-	80,394	80,394
-	-	-	-	1,035,129	1,035,129
494,873	494,898	25	-	-	-
494,873	494,900	27	3,519,210	4,633,813	1,114,603
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
345,000	345,000	-	1,720,108	1,241,537	478,571
149,873	149,898	(25)	1,799,102	1,787,753	11,349
-	-	-	-	1,500,621	(1,500,621)
494,873	494,898	(25)	3,519,210	4,529,911	(1,010,701)
-	2	2	-	103,902	103,902
881	881	-	3,126,214	3,126,214	-
<u>\$ 881</u>	<u>\$ 883</u>	<u>\$ 2</u>	<u>\$ 3,126,214</u>	<u>\$ 3,230,116</u>	<u>\$ 103,902</u>

City of St. Clair Shores, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2005

	Motor Pool	Computer Replacement	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,741,710	\$ 182,672	\$ 1,924,382
Receivables - Other	4,566	-	4,566
Due from other funds	100,765	-	100,765
Total current assets	1,847,041	182,672	2,029,713
Noncurrent assets - Capital assets - Net	3,498,648	87,385	3,586,033
Total assets	5,345,689	270,057	5,615,746
Liabilities			
Current liabilities:			
Accounts payable	38,757	593	39,350
Accrued and other liabilities	107,174	-	107,174
Due to other funds	6,764	-	6,764
Due to other governmental units	7,527	-	7,527
Current portion of long-term debt	6,848	-	6,848
Total current liabilities	167,070	593	167,663
Noncurrent liabilities - Long-term debt - Net of current portion	20,009	-	20,009
Total liabilities	187,079	593	187,672
Net Assets			
Invested in capital assets - Net of related debt	3,498,648	87,385	3,586,033
Unrestricted	(3,518,929)	182,079	(3,336,850)
Total net assets	\$ (20,281)	\$ 269,464	\$ 249,183

City of St. Clair Shores, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets - Internal Service Funds Year Ended June 30, 2005

	Motor Pool	Computer Replacement	Totals
Operating Revenue			
Charges for services	\$ 1,552,235	\$ -	\$ 1,552,235
Other	55,795	101,167	156,962
Total operating revenue	1,608,030	101,167	1,709,197
Operating Expenses			
Salaries and fringe benefits	252,384	-	252,384
Administrative charge	526,869	-	526,869
Depreciation and amortization	620,726	9,709	630,435
Supplies	269,930	-	269,930
Other	12,677	84,313	96,990
Total operating expenses	1,682,586	94,022	1,776,608
Operating Income (Loss)	(74,556)	7,145	(67,411)
Nonoperating Revenue (Expense)			
Interest income	22,653	3,987	26,640
Loss on disposal of capital assets	(69,143)	-	(69,143)
Total nonoperating revenue (expense)	(46,490)	3,987	(42,503)
Income (Loss) - Before transfers	(121,046)	11,132	(109,914)
Transfers In	100,765	258,332	359,097
Net Change in Net Assets	(20,281)	269,464	249,183
Net Assets - Beginning of year	5,178,891	-	5,178,891
Net Assets - End of year	<u>\$ 5,158,610</u>	<u>\$ 269,464</u>	<u>\$ 5,428,074</u>

City of St. Clair Shores, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2005

	Motor Pool	Computer Replacement	Totals
Cash Flows from Operating Activities			
Receipts from customers	\$ 1,608,030	\$ 101,167	\$ 1,709,197
Payments to suppliers	(807,440)	(83,720)	(891,160)
Payments to employees	(252,264)	-	(252,264)
Internal activity - Payments from other funds	28,678	-	28,678
Other payments	(107,693)	-	(107,693)
Net cash provided by operating activities	469,311	17,447	486,758
Cash Flows from Noncapital Financing Activities -			
Transfers from other funds	100,765	258,332	359,097
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(350,035)	(97,094)	(447,129)
Proceeds from sale of capital assets	51,954	-	51,954
Net cash used in capital and related financing activities	(298,081)	(97,094)	(395,175)
Cash Flows from Investing Activities - Interest received on investments	22,653	3,987	26,640
Net Increase in Cash and Cash Equivalents	294,648	182,672	477,320
Cash and Cash Equivalents - Beginning of year	1,447,062	-	1,447,062
Cash and Cash Equivalents - End of year	<u>\$ 1,741,710</u>	<u>\$ 182,672</u>	<u>\$ 1,924,382</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ (74,556)	7,145	(67,411)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	620,726	9,709	630,435
Changes in assets and liabilities:			
Receivables	(1,595)	-	(1,595)
Due from other funds	15,889	-	15,889
Due from other governmental funds	(113,625)	-	(113,625)
Accounts payable	2,036	593	2,629
Accrued and other liabilities	(4,141)	-	(4,141)
Due to other funds	12,789	-	12,789
Due to other governmental funds	7,527	-	7,527
Compensated absences	4,261	-	4,261
Net cash provided by operating activities	<u>\$ 469,311</u>	<u>\$ 17,447</u>	<u>\$ 486,758</u>

City of St. Clair Shores, Michigan

	Pension and Other Employee Benefit Trust Funds			
	General			
	Employees'	Police and Fire	Police and Fire	
	Retirement	Retirement	Retiree Health	
	System	System	Care Fund	Totals
Assets				
Cash and cash equivalents	\$ -	\$ -	\$ 68,899	\$ 68,899
Investments:			-	-
Corporate bonds and notes	6,276,412	17,460,014	80,317	23,816,743
U.S. government securities	6,990,290	12,103,844	440,512	19,534,646
Common and preferred stock	20,164,379	47,079,517	-	67,243,896
Mutual funds	8,703,213	3,456,968	1,004,974	13,165,155
Investments held by broker-dealer and banks under securities loans:				
U.S. government securities	-	3,899,298	-	3,899,298
Corporate bonds and notes	-	515,277	-	515,277
Common and preferred stock	-	9,841,154	-	9,841,154
Securities lending short-term collateral bank investment pool	-	14,755,490	-	14,755,490
Other receivables	357,532	217,918	-	575,450
Accrued interest receivable	157,324	401,648	5,027	563,999
Total assets	42,649,150	109,731,128	1,599,729	153,980,007
Liabilities and Net Assets				
Liabilities				
Accrued and other liabilities	258,984	1,349,664	-	1,608,648
Due to other governmental units	-	-	-	-
Amounts due to broker under securities lending agreement	-	14,755,490	-	14,755,490
Total liabilities	258,984	16,105,154	-	16,364,138
Net Assets - Held in trust for pension and other employee benefits	\$ 42,390,166	\$ 93,625,974	\$ 1,599,729	\$ 137,615,869

Other Supplemental Information
Combining Statement of Net Assets
Fiduciary Funds
June 30, 2005

Agency Funds				
County and School	Water Feasibility			
Tax	Study	General Agency	Totals	
\$ 27,467	\$ 81,509	\$ 256,663	\$ 365,639	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
27,467	81,509	256,663	365,639	
\$ -	\$ 9,002	\$ 179,036	\$ 188,038	
27,467	72,507	77,627	177,601	
-	-	-	-	
<u>\$ 27,467</u>	<u>\$ 81,509</u>	<u>\$ 256,663</u>	<u>\$ 365,639</u>	

City of St. Clair Shores, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2005

	General Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retiree Health Care	Totals
Additions				
Investment income:				
Interest and dividends	\$ 1,387,414	\$ 2,482,003	\$ 86,417	\$ 3,955,834
Net increase in fair value of investments	2,538,767	5,086,309	-	7,625,076
Less investment expenses	(230,704)	(418,735)	(16,420)	(665,859)
Net investment income	3,695,477	7,149,577	69,997	10,915,051
Securities lending income:				
Interest and fees	-	399,001	-	399,001
Less borrower rebates and bank fees	-	(360,507)	-	(360,507)
Net securities lending income	-	38,494	-	38,494
Contributions:				
Employer	1,605,170	1,024,702	250,000	2,879,872
Employee	9,841	482,071	-	491,912
Total contributions	1,615,011	1,506,773	250,000	3,371,784
Total additions	5,310,488	8,694,844	319,997	14,325,329
Deductions				
Benefit payments	3,477,842	6,173,645	-	9,651,487
Refunds of contributions	641	7,135	-	7,776
Administrative expenses	23,144	26,433	-	49,577
Total deductions	3,501,627	6,207,213	-	9,708,840
Net Increase	1,808,861	2,487,631	319,997	4,616,489
Net Assets Held in Trust for Pension and Other Employee Benefits				
Beginning of year	40,581,305	91,138,343	1,279,732	132,999,380
End of year	<u>\$ 42,390,166</u>	<u>\$ 93,625,974</u>	<u>\$ 1,599,729</u>	<u>\$ 137,615,869</u>

City of St. Clair Shores, Michigan

Other Supplemental Information

Combining Statement of Changes in Assets and Liabilities - Agency Funds

June 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<u>County and School Tax Fund</u>				
Assets - Cash and cash equivalents	\$ 15,612	\$ 69,342,424	\$ 69,330,569	\$ 27,467
Liabilities - Due to other governmental units	\$ 15,612	\$ 69,342,424	\$ 69,330,569	\$ 27,467
<u>Water Feasibility Study Fund</u>				
Assets - Cash and cash equivalents	\$ -	\$ 447,868	\$ 366,359	\$ 81,509
Liabilities				
Accrued and other liabilities	\$ -	\$ 128,273	\$ 119,271	\$ 9,002
Due to other governmental units	-	167,446	94,939	72,507
Total liabilities	\$ -	\$ 295,719	\$ 214,210	\$ 81,509
<u>General Agency Fund</u>				
Assets - Cash and cash equivalents	\$ 188,576	\$ 4,069,010	\$ 4,000,923	\$ 256,663
Liabilities				
Accrued and other liabilities	\$ 104,227	\$ 1,485,678	\$ 1,410,869	\$ 179,036
Due to other governmental units	84,349	2,381,248	2,387,970	77,627
Total liabilities	\$ 188,576	\$ 3,866,926	\$ 3,798,839	\$ 256,663
<u>Total - All Agency Funds</u>				
Assets - Cash and cash equivalents	\$ 204,188	\$ 73,859,302	\$ 73,697,851	\$ 365,639
Liabilities				
Accrued and other liabilities	104,227	1,613,951	1,530,140	188,038
Due to other governmental units	99,961	71,891,118	71,813,478	177,601
Total liabilities	\$ 204,188	\$ 73,505,069	\$ 73,343,618	\$ 365,639

City of St. Clair Shores, Michigan

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City of St. Clair Shores, Michigan

Fiscal Years Ended June 30	Property Taxes	Licenses and Permits	Federal and State Grants and Entitlements	State- shared Revenues	Court Fines and Forfeitures
1996	\$ 17,209,196	\$ 1,082,413	\$ 1,111,208	\$ 9,244,935	\$ 1,454,278
1997	17,074,882	1,085,728	882,351	9,652,107	1,685,021
1998	17,625,497	1,011,749	1,341,571	10,423,765	1,710,451
1999	18,233,589	1,259,482	2,380,736	10,820,165	1,742,737
2000	17,920,891	1,296,098	834,033	11,282,560	2,144,747
2001	21,232,974	1,279,146	1,249,409	11,481,170	1,917,089
2002	21,821,038	1,388,953	1,249,583	10,861,402	1,837,754
2003	23,351,664	1,288,073	4,533,774	10,615,651	1,732,976
2004	24,830,902	1,332,299	810,681	10,870,076	1,860,677
2005	26,216,797	1,400,042	1,070,467	9,941,755	2,096,828

General Revenues by Source
General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years

Charges for Services	Interest Income	Other	Total
\$ 1,798,837	\$ 823,333	\$ 966,973	\$ 33,691,173
2,090,656	818,253	1,115,180	34,404,178
2,311,455	815,477	1,110,325	36,350,290
2,383,018	795,428	772,582	38,387,737
2,914,756	925,930	737,596	38,056,611
3,118,675	979,762	789,040	42,047,265
3,526,016	672,466	830,481	42,187,693
3,941,713	321,077	1,205,771	46,990,699
3,958,426	286,452	1,107,361	45,056,874
3,559,584	561,241	2,245,723	47,092,437

City of St. Clair Shores, Michigan

Fiscal Years Ended June 30	General Government	40th District Court	Police and Fire	Public Works/ Streets
1996	\$ 6,211,813	\$ 1,160,314	\$ 11,451,534	\$ 6,860,245
1997	5,528,953	1,332,998	12,600,127	7,836,161
1998	6,399,011	1,472,858	13,422,904	8,011,082
1999	7,345,903	1,420,388	13,394,838	8,179,091
2000	7,090,293	1,458,015	12,796,079	8,512,490
2001	6,275,648	1,692,689	13,444,487	9,808,941
2002	7,236,674	1,537,378	13,917,528	9,337,133
2003	8,160,616	1,399,478	13,613,575	8,306,823
2004	8,661,984	1,474,648	14,169,232	7,586,149
2005	8,211,611	1,535,445	16,016,638	9,397,612

* Includes other expenditures, principal retirement, interest, and other fiscal charges

(I) Community and Economic Development was previously reported with Public Works/Streets.

**General Government Expenditures by Function
General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years**

Community and Economic Development (1)	Recreation and Culture	Other*	Total
\$ -	\$ 3,861,631	\$ 2,678,131	\$ 32,223,668
-	4,183,072	4,124,460	35,605,771
-	5,456,906	2,700,760	37,463,521
-	6,679,228	2,354,034	39,373,482
-	5,068,891	2,188,171	37,113,939
-	5,565,347	1,869,450	38,656,562
-	5,630,870	3,109,966	40,769,549
2,121,350	4,522,684	3,014,183	41,138,709
2,004,973	4,394,431	3,465,487	41,756,904
1,539,660	4,534,909	4,157,093	45,392,968

City of St. Clair Shores, Michigan

	2005	2004	2003	2002
Operating Revenues	\$ 14,656,810	\$ 15,434,920	\$ 14,520,911	\$ 13,145,651
Operating Expenses	16,365,350	15,342,703	15,183,104	13,654,555
Operating Income (Loss)	(1,708,540)	92,217	(662,193)	(508,904)
Nonoperating Income (Expense)	1,680,583	1,401,760	1,278,320	1,190,834
Net Income (Loss) - Before operating transfers and capital contributions	(27,957)	1,493,977	616,127	681,930
Capital Contributed from Grants	17,246	251,175	191,185	12,580
Net Transfers	100,580	389,598	455,404	40,000
Net Income (Loss)	89,869	2,134,750	1,262,716	734,510
Net Assets - Prior year*	38,110,960	35,976,210	34,713,494	16,146,546
Net Assets - Current year	\$ 38,200,829	\$ 38,110,960	\$ 35,976,210	\$ 16,881,056

* Effective July 1, 2002, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, which reports net assets instead of retained earnings. In addition, the City adjusted the net assets of the Utility Fund at July 1, 2002 by \$6,445,983 to recognize the joint venture interest in the Southeast Macomb Sanitary District not previously reported.

**Summary of Revenues, Expenses, and Changes in
Net Assets - Enterprise Funds
Last Ten Fiscal Years**

Year Ended June 30					
2001	2000	1999	1998	1997	1996
\$ 12,026,588	\$ 13,298,604	\$ 14,292,270	\$ 12,100,624	\$ 13,221,066	\$ 12,259,539
<u>12,125,964</u>	<u>13,216,618</u>	<u>13,180,553</u>	<u>12,480,310</u>	<u>11,471,717</u>	<u>11,701,129</u>
(99,376)	81,986	1,111,717	(379,686)	1,749,349	558,410
<u>1,068,768</u>	<u>1,378,510</u>	<u>(283,776)</u>	<u>(215,378)</u>	<u>(276,929)</u>	<u>(281,633)</u>
969,392	1,460,496	827,941	(595,064)	1,472,420	276,777
3,615,432	-	-	-	-	-
<u>115,000</u>	<u>110,000</u>	<u>1,223,500</u>	<u>-</u>	<u>261,180</u>	<u>-</u>
4,699,824	1,570,496	2,051,441	(595,064)	1,733,600	276,777
<u>11,446,722</u>	<u>9,876,226</u>	<u>7,824,785</u>	<u>8,419,849</u>	<u>6,686,249</u>	<u>6,409,472</u>
<u>\$ 16,146,546</u>	<u>\$ 11,446,722</u>	<u>\$ 9,876,226</u>	<u>\$ 7,824,785</u>	<u>\$ 8,419,849</u>	<u>\$ 6,686,249</u>

City of St. Clair Shores, Michigan

General Fund Balance Compared to Annual Expenditures Last Ten Fiscal Years

Fiscal Year Ended June 30	Reserved Fund Balance	Designated Fund Balance	Unreserved and Undesignated Fund Balance	Annual Expenditures	Unreserved and Undesignated Fund Balance as a Percentage of Expenditures
1996	\$ 2,464,668	\$ 4,754,529	\$ 1,701,727	\$ 24,397,618	6.97
1997	2,608,085	5,224,406	1,794,789	25,667,727	6.99
1998	2,796,489	4,492,186	1,893,847	29,231,927	6.48
1999	3,178,185	2,939,810	2,000,847	29,517,332	6.78
2000	3,752,023	3,573,143	2,110,847	28,819,924	7.32
2001	4,215,427	4,003,685	2,216,847	29,500,596	7.51
2002	4,496,463	3,456,958	2,322,666	31,236,451	7.44
2003	3,840,141	4,374,992	2,345,666	30,965,452	7.58
2004	4,849,616	4,332,876	2,369,123	31,870,316	7.43
2005	5,409,134	4,544,161	2,392,816	32,991,241	7.25

City of St. Clair Shores, Michigan

Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Expenditures Last Ten Fiscal Years

Fiscal Year Ended June 30	Debt Service Requirements			Total General Expenditures*	Debt Service as a Percentage of General Expenditures
	Principal	Interest	Total		
1996	\$ 824,890	\$ 802,429	\$ 1,627,319	\$ 32,223,668	5.05
1997	900,945	588,973	1,489,918	35,605,771	4.18
1998	929,247	581,720	1,510,967	37,463,521	4.03
1999	755,749	554,078	1,309,827	39,373,482	3.33
2000	799,101	468,231	1,267,332	37,113,939	3.41
2001	837,293	424,651	1,261,944	38,656,562	3.26
2002	931,993	1,453,474	2,385,467	40,769,549	5.85
2003	1,179,447	1,697,054	2,876,501	41,138,709	6.99
2004	2,132,057	1,339,724	3,471,781	41,756,904	8.31
2005	2,128,282	2,028,811	4,157,093	45,392,968	9.16

* Includes General, Debt Service, and Special Revenue Funds

City of St. Clair Shores, Michigan

Revenue Bond Coverage Last Ten Fiscal Years

Fiscal Year Ended June 30	Gross Revenue	Expenses Net of Depreciation and Interest	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1996	\$ 12,716,517	\$ 10,808,722	\$ 1,907,795	\$ 385,000	\$ 447,054	\$ 832,054	2.29
1997	13,681,905	10,540,099	3,141,806	425,000	429,334	854,334	3.68
1998	12,443,972	11,449,195	994,777	530,000	503,172	1,033,172	0.96
1999	14,494,456	12,082,627	2,411,829	625,000	483,887	1,108,887	2.18
2000	13,299,406	12,078,086	1,221,320	675,000	376,537	1,051,537	1.16
2001	13,664,617	10,974,242	2,690,375	815,000	401,200	1,216,200	2.21
2002	14,731,907	12,462,945	2,268,962	865,000	362,235	1,227,235	1.85
2003	16,159,107	13,955,535	2,203,572	505,000	263,028	768,028	2.87
2004	17,092,204	14,162,460	2,929,744	535,000	236,585	771,585	3.80
2005	16,535,588	15,182,176	1,353,412	535,000	206,091	741,091	1.83

This schedule includes:

Recreational Revenue Refunding Bonds
Macomb County Water Supply System No. 12 Bonds
Water and Sewer Refunding Bonds

City of St. Clair Shores, Michigan

Assessed and Estimated Actual Valuation of Taxable Property Last Ten Fiscal Years

Fiscal Years Ended June 30	Real Assessed Valuation	Personal Assessed Valuation	Total Valuation	Percent of True Value (1)	Taxable Valuation	
1996	\$ 1,239,527,772	\$ 52,139,041	\$ 1,291,666,813	50	\$ 1,275,813,790	(2)
1997	1,267,181,839	57,500,991	1,324,682,830	50	1,307,291,945	(2)
1998	1,338,897,743	58,682,761	1,397,580,504	50	1,345,870,585	(2)
1999	1,446,199,145	63,008,711	1,509,207,856	50	1,396,953,906	(2)
2000	1,660,107,940	67,766,818	1,727,874,758	50	1,441,753,423	(2)
2001	1,784,066,649	65,115,869	1,849,182,518	50	1,492,192,908	(2)
2002	1,957,014,075	65,889,360	2,022,903,435	50	1,567,930,820	(2)
2003	2,085,742,900	63,289,490	2,149,032,390	50	1,638,213,813	(2)
2004	2,205,000,600	64,034,500	2,269,035,100	50	1,692,192,550	(2)
2005	2,268,822,700	65,265,200	2,334,087,900	50	1,759,604,800	(2)

(1) In accordance with the 1970 State of Michigan Constitution, the assessed value is 50 percent of the appraised or estimated value.

(2) In 1995, the increase in assessed value was capped at the lower of inflation or 5 percent subject to revaluation at sale of property. The valuation shown is the taxable valuation for these periods.

City of St. Clair Shores, Michigan

Special Assessment Billings and Collections Last Ten Fiscal Years

Fiscal Years Ended June 30	Beginning Outstanding Assessments	Special Assessment Billings	Total Assessments	Assessments Collected	Percent of Collections to Total	Ending Outstanding Assessments
1996	\$ 622,945	\$ 13,107	\$ 636,052	\$ 225,396	35.44	\$ 410,656
1997	410,656	10,295	420,951	194,374	46.18	226,577
1998	226,577	124,596	351,173	220,973	62.92	130,200
1999	130,200	2,290	132,490	65,926	49.76	66,564
2000	66,564	1,955	68,519	25,452	37.15	43,067
2001	43,067	1,976	45,043	18,469	41.00	26,574
2002	26,574	1,723	28,297	20,875	73.77	7,422
2003	7,422	124,967	132,389	138,143	104.35	(5,754)
2004	(5,754)	196,333	190,579	163,226	85.65	27,353
2005	27,353	178,870	206,223	164,135	79.59	42,088

City of St. Clair Shores, Michigan

City

Fiscal Year Ended June 30	State	Operating	Sanitation	ACT 369	Library
1996	\$ 7,651,988	\$ 9,023,739	\$ 3,383,902	\$ 52,590	\$ 239,105
1997	7,841,514	8,902,734	3,338,524	50,708	235,899
1998	8,072,478	9,164,862	3,437,688	50,147	278,404
1999	8,381,178	9,370,659	3,513,946	50,004	457,341
2000	8,651,758	9,597,609	3,599,104	50,035	470,582
2001	8,952,501	9,818,088	3,681,783	50,000	486,799
2002	9,385,687	10,137,105	3,801,280	49,920	510,565
2003	9,829,283	10,549,710	3,955,976	50,014	1,219,326
2004	8,460,567	10,755,104	4,032,950	49,984	1,259,072
2005	10,554,870	11,054,791	4,145,310	49,864	1,622,514

* Does not include L'Anse Creuse Schools

**Property Tax Levies
Last Ten Fiscal Years**

Taxes

Residential Streets	Water	Police and Fire Pension	Debt Service	School Tax*	County Tax	Total
\$ 1,324,683	\$ -	\$ 2,120,817	\$ 846,340	\$ 11,622,813	\$ 6,076,443	\$ 42,342,420
1,306,919	-	2,021,281	941,374	12,451,892	6,224,335	43,315,180
1,345,333	-	2,346,551	669,208	15,285,976	6,417,621	47,068,268
1,375,603	-	2,170,852	750,255	16,657,575	6,559,125	49,286,538
1,408,628	1,410,613	1,700,616	527,036	17,060,866	6,742,987	51,219,834
1,443,388	1,443,388	1,758,781	3,366,290	17,102,715	6,971,522	55,075,255
1,489,915	1,489,915	1,932,128	3,379,789	19,963,354	7,293,227	59,432,885
1,550,613	1,550,613	1,446,885	3,880,929	22,360,285	8,077,773	64,471,407
1,580,732	1,580,732	2,387,289	4,087,300	22,925,955	8,335,107	65,454,792
1,624,757	1,706,883	3,329,223	3,888,766	23,820,370	8,654,693	70,452,041

City of St. Clair Shores, Michigan

Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita Last Ten Fiscal Years

Fiscal Year Ended June 30	Assessed Value	Estimated Population		General Bonded Debt Outstanding	Percent of General Obligation Debt to Assessed Value	General Obligation Debt Per Capita
1996	\$ 1,291,666,813	66,604	(3)	\$ 9,969,187	.77	149.68
1997	1,324,682,830	66,604	(3)	9,093,242	.69	136.53
1998	1,397,580,504	64,553	(2)	9,663,993	.69	149.71
1999	1,509,207,856	62,603	(2)	9,023,244	.60	144.13
2000	1,727,874,758	61,974	(2)	8,224,143	.48	132.70
2001	1,849,182,518	63,096	(1)	14,913,958	.81	236.37
2002	2,022,903,435	62,292	(2)	41,768,113	2.06	670.52
2003	2,149,032,390	62,268	(2)	40,215,724	1.87	645.85
2004	2,269,035,100	61,343	(2)	38,685,113	1.70	630.64
2005	2,334,087,900	61,027	(2)	38,095,976	1.63	624.25

(1) From Federal Census

(2) State demographer (SEMCOG)

(3) Estimated

City of St. Clair Shores, Michigan

Building Permits at Market Value Last Ten Fiscal Years

Fiscal Year Ended June 30	Residential		Commercial		Industrial		Grand Total
	Number	Value	Number	Value	Number	Value	
1996	2,528	\$ 11,364,800	70	\$ 8,220,000	3	\$ 415,000	\$ 19,999,800
1997	2,596	16,150,914	152	11,788,505	5	135,000	28,074,419
1998	2,960	16,482,915	142	13,394,337	5	345,500	30,222,752
1999	3,017	21,859,545	146	19,196,955	1	3,000	41,059,500
2000	3,080	20,313,984	138	4,563,451	2	4,000	24,881,435
2001	3,213	19,732,742	86	4,287,285	7	531,200	24,551,227
2002	2,861	18,975,443	99	6,648,573	3	18,000	25,642,016
2003	2,111	17,257,810	89	5,629,860	1	60,000	22,947,670
2004	2,121	17,771,136	87	7,871,741	1	3,250,000	28,892,877
2005	2,028	25,676,662	70	7,035,000	3	87,100	32,798,762

City of St. Clair Shores, Michigan

Computation of Direct and Overlapping Debt June 30, 2005

Jurisdiction	General Bonded Debt Obligation	Percent Applicable to St. Clair Shores Taxpayers	Amount Applicable to St. Clair Shores Taxpayers
Direct debt - City of St. Clair Shores	\$ 38,095,976	100.00	\$ 38,095,976
Overlapping debt:			
County of Macomb	56,347,302	6.52	3,673,844
Macomb Intermediate	3,000,000	6.39	191,700
L'Anse Creuse Schools	152,595,000	0.08	122,076
Lake Shore Schools	27,845,000	100.00	27,845,000
Lakeview Schools	31,745,000	100.00	31,745,000
South Lake Schools	<u>22,215,000</u>	85.99	<u>19,102,679</u>
Total overlapping debt	<u>293,747,302</u>		<u>82,680,299</u>
Total	<u>\$ 331,843,278</u>		<u>\$ 120,776,275</u>

City of St. Clair Shores, Michigan

Demand and Savings Deposits Last Ten Fiscal Years

Fiscal Year Ended June 30 (2)	Deposits - In Thousands (1)			
	Banks	Savings and Loans	Credit Unions	Total
1995	\$ 338,383	\$ 384,523	\$ 27,718	\$ 750,624
1996	435,564	378,871	33,273	847,708
1997	443,840	403,733	30,431	878,004
1998	501,904	428,506	37,165	967,575
1999	480,410	449,049	38,093	967,552
2000	514,720	450,936	39,005	1,004,661
2001	562,696	441,231	N/A	1,003,927
2002	1,023,711	N/A	45,994	1,069,705
2003	1,035,103	660	52,373	1,088,136
2004	990,304	14,971	52,259	1,057,534

(1) Deposit information is from Sheshunoff Financial (received from First State Bank).

(2) Information for fiscal year 2005 was not available at the time of printing.

City of St. Clair Shores, Michigan

Demographic Statistics Last Ten Years

Fiscal Year Ended June 30	Estimated Population	Number of Households	Median Effective Buying Income Per Household (1)	Unemployment Rate (Percent) (2)	Median Age
1996	66,604 (5)	24,800	\$ 39,340	4.4	38.7
1997	66,604 (5)	24,400	41,909	3.9	38.7
1998	64,553 (4)	26,800	42,060	3.2	39.0
1999	62,603 (4)	27,400	49,775	3.3	38.7
2000	61,974 (4)	27,418	50,614	3.4	38.7
2001	63,096 (3)	27,434	46,120	4.5	38.7
2002	62,292 (4)	27,434	46,120	5.9	42.0
2003	62,268 (4)	27,503	41,832	6.2	42.0
2004	61,343 (4)	27,566	40,917	6.0	42.0
2005	61,027 (4)	27,671	*40,917	7.6	42.0

(1) Effective buying income is personal income less Social Security taxes.
Developed by Sales and Marketing Management, New York, N.Y. and published annually.
* 2005 figure not available in time for annual audit, therefore the same figure from
2004 was used.

(2) All unemployment data is from the Michigan Employment Security Commission.

(3) From federal census

(4) State demographer (SEMCOG)

(5) Estimated

City of St. Clair Shores, Michigan

Labor Agreements June 30, 2005

Name	Expiration Date	Number of Employees Covered
American Federation of State, County and Municipal Employees	06/30/07	76
AFSCME, Local 1015A, AFL-CIO, Crossing Guards	06/30/06	18
St. Clair Shores Command Officers Association of the Michigan Association of Police	06/30/05	17
Michigan Association of Public Employees representing the 40th District Court Employees	06/30/05	9
The St. Clair Shores Emergency Dispatchers Union of the Police Officers Association of Michigan	06/30/06	11
St. Clair Shores Fire Fighters Union Local 1744 of the International Association of Fire Fighters	06/30/05	45
St. Clair Shores Professional Employee Association, UAW, Local 412, Unit 44	06/30/07	22
Michigan Association of Police (MAP) and the St. Clair Shores Police Officers Association	06/30/06	64
UAW, Local 412 Unit 79	06/30/07	2

City of St. Clair Shores, Michigan

Personnel Summary June 30, 2005

Budgeted Positions by Budgetary Activity		Full-time	Part-time
General government	City management	2	-
	City clerk	4	2
	Personnel management	1	-
40th District Court		18	1
Administrative services	Accounting	9	1
	Assessing	4	-
	Building maintenance	4	-
	Data processing	3	-
	Treasury	1	-
Police	Administration	19	1
	Investigation	18	-
	Operations	62	-
Fire	Administration	2	-
	Extinguishment	33	-
	Lieutenants	9	-
	Training	6	-
Community services	Administration	11	4
	Arena	2	7
	Boating	-	10
	Building services/inspectors	3	-
	Code enforcement	1	-
	Engineering	1	-
	Golf	3	16
	Library	14	7
	Parks	3	13
	Planning	1	-
	Pool	-	7
	Recreation	-	7
	Senior Center	1	6
Public services	Administration	2	-
	Motor pool	4	-
	Sanitation	1	1
	Sewer	8	-
	Street services	10	5
	Water	20	1
Total budgeted positions		280	89

City of St. Clair Shores, Michigan

Miscellaneous Statistical Data June 30, 2005

Police Protection

Part I crimes (1)	2,515
Part II crimes (2)	4,435
Injury accidents	339
Property damage	1,429
Private property damage	158
Civil infractions	18,949
Parking violations	6,592
Adult arrests	2,315
Juvenile arrests	103
OUIL arrests	189
False alarm billings	1,374

Library

Registered borrowers	23,451
Book collections	120,583
Other collections (3)	22,538
Items circulated	322,508
Reference transactions	22,196
Program attendance	7,174
Library visits	203,730
Museum visits	2,487
Hours of literacy tutoring	1,413
Library website logins	95,427
Electronic database logins	14,874
Internet sessions	24,099

40th District Court

Cases handled:	
Civil	1,396
Criminal	1,795
Traffic	21,213
Landlord and tenant	268
Small claims	373
Parking	6,533

Water and Sewer Services

Customers:		
Residential		23,952
Commercial		1,277
Miles of water mains		220
Miles of sanitary sewers		229
Water (in thousand cubic feet):		
Purchased from Detroit		334,315
Sold to residents		239,213
Rates:		
	<u>Water</u>	<u>Sewer</u>
1,000 cu. ft.	18.95	26.53
2,000 cu. ft.	18.95	26.53
Over 3,000 cu. ft.	18.95	26.53

- (1) Murder, criminal sexual conduct, robbery, aggravated assault, burglary, larceny, arson, and vehicle theft
- (2) Malicious destruction of property, disorderly conduct, assault, family trouble, etc.
- (3) Includes audio/video cassettes, compact discs, talking books, magazines, etc.

City of St. Clair Shores, Michigan

Miscellaneous Statistical Data (Continued) June 30, 2005

Parks and Recreation

Acres	371
Developed parks	14
Adult athletics attendance	1,050
Youth athletics attendance	3,425
Instructional swim attendance	1,000
Instructional rec. attendance	2,300
Senior program attendance	38,939
SMART program attendance	19,259
USDA Meals Program -	
Senior meals	5,441
Health-O-Rama attendance	215
Seniors Apple Pie Sale (no. sold)	1,260
Seniors volunteer hours	16,305
Summer playground attendance	1,300
Pool attendance	13,400
Boating/Wells	325
Pool/Water slide attendance	10,500
Boat ramp usage	14,500
Golf course attendance	54,771
Ice rental - No. of hours	8,443
Public skating attendance	5,607
Ice skating lessons attendance	1,570
Special events attendance	14,231
Special Recreation Program attendance	900
2004 fireworks attendance	-

Fire Protection

Stations	3
Emergency alarms answered	6,293
Medical emergencies (EMS)	4,510
Fire inspections conducted	538
Code violations	2,182
Training hours completed	844
Number of fire hydrants	1,701

Election Data (November 2003 General Election)

Registered voters	47,531
Voters at polls	25,618
Absentee ballots	10,573
Percent voting	76.14%

Streets and Sidewalks

Miles of City streets:	
Primary	35.08
Secondary	152.04
Estimated sidewalks in miles	365
Estimated sidewalks value	\$19,997,701
Bridges	4
Streetlights	4,090

* Fireworks display cancelled in 2004

City of St. Clair Shores, Michigan

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City of St. Clair Shores, Michigan

Fiscal Year Ended June 30	General Fund							Macomb Community College		
	Police and Fire				Residential Streets	Water	Debt Service		Library	Total
	Operating	Sanitation	Retirement System	Other ACT 359						
1996	6.8120	2.5545	1.6010	0.0397	1.0000	-	1.0389	0.1805	13.2266	1.6800
1997	6.8120	2.5545	1.5466	0.0388	1.0000	-	0.7203	0.1805	12.8527	1.6457
1998	6.8120	2.5545	1.7443	0.0377	1.0000	-	0.4972	0.2070	12.8527	1.6539
1999	6.8025	2.5509	1.5759	0.0363	0.9986	-	0.5371	0.3320	12.8333	1.6134
2000	6.7712	2.5392	1.1998	0.0353	0.9938	0.9952	0.3655	0.3320	13.2320	1.5840
2001	6.6960	2.5110	1.1995	0.0341	0.9843	0.9843	2.2561	0.3322	14.9975	1.5140
2002	6.5997	2.4748	1.2579	0.0325	0.9700	0.9700	2.1607	0.3324	14.7980	1.6707
2003	6.5600	2.4599	0.8997	0.0311	0.9642	0.9642	2.3690	0.7582	15.0063	1.6925
2004	6.4766	2.4286	1.4376	0.0301	0.9519	0.9519	2.4155	0.7582	15.4504	1.5859
2005	6.4073	2.4026	1.9296	0.0289	0.9417	0.9893	2.2106	0.9404	15.8504	1.5002

**Property Tax Rates
Direct and Overlapping Government
(Per \$1,000 of Assessed Valuation)
Last Ten Fiscal Years**

		Lakeview Schools		Lake Shore Schools		South Lake Schools		L' Anse Creuse Schools		
Macomb Intermediate Schools	Macomb County	Homestead	Non- homestead	Homestead	Non- homestead	Homestead	Non- homestead	Homestead	Non- homestead	State of Michigan
2.0400	4.7646	1.3000	19.3000	-	18.0000	7.0500	18.6900	6.6900	24.6900	6.0000
2.0367	4.7626	1.3000	19.3000	-	18.0000	7.0062	18.6900	6.6900	24.6900	6.0000
2.0367	4.7616	1.3000	18.7114	4.6000	22.6000	7.9708	19.9700	6.7900	24.7900	6.0000
2.0363	4.7614	1.3000	18.7114	4.5000	22.5000	9.9385	22.0600	6.6900	24.6900	6.0000
2.0210	4.7571	1.3000	18.2182	4.5000	22.5000	9.7419	22.0900	6.6900	24.6900	6.0000
2.0210	4.7545	1.1700	19.1700	4.1000	22.1000	9.3279	21.9865	6.6900	24.6900	6.0000
2.0033	4.7481	4.7000	22.7000	3.9500	21.9500	9.4740	22.0378	6.1800	23.8974	6.0000
2.9863	5.0228	4.6900	22.6900	3.9500	21.5036	8.9978	21.9749	6.6900	24.6900	6.0000
2.9729	5.0192	4.6800	22.6800	3.9500	21.2543	8.9653	21.7191	6.6900	24.6900	5.0000
2.9615	5.0161	4.6700	22.6700	3.9500	21.9500	8.8737	21.7191	6.6900	24.6900	6.0000

City of St. Clair Shores, Michigan

State Equalized Valuation and Taxable Valuation Five-year History

Assessed Value as of December 31	Year of State Equalization and Tax Levy	City's Fiscal Year Ending June 30	State Equalized Valuation	Ad Valorem Taxable Valuation
2003	2004	2005	\$ 2,334,087,900	\$ 1,759,604,800
2002	2003	2004	2,269,035,100	1,692,192,550
2001	2002	2003	2,149,032,390	1,637,090,290
2000	2001	2002	2,022,903,435	1,567,930,820
1999	2000	2001	1,849,182,518	1,492,192,908

Per capita 2005 ad valorem taxable value is \$28,833 based on the 2005 estimated population of 61,027.

City of St. Clair Shores, Michigan

Breakdown of Current Taxable Valuation June 30, 2005

By Use	Percent
Residential	88
Commercial	11
Industrial	1
Total	<u>100</u>

By Class	Percent
Real property	96
Personal property	4
Total	<u>100</u>

City of St. Clair Shores, Michigan

Property Tax Levy and Collections Last Ten Fiscal Years

Fiscal Years Ended June 30	Total Tax Levy (1)	Current Collections	Percent of Levy Collected	Delinquent Collections	Total Tax Collections	Percent of Total Collections to Tax Levy
1996	\$ 17,446,376	\$ 17,416,864	99.83	\$ 37,734	\$ 17,454,598	100.05
1997	16,802,231	16,146,144	96.10	453,355	16,599,499	98.79
1998	17,064,437	16,629,060	97.45	408,966	17,038,026	99.85
1999	17,688,638	17,203,884	97.26	456,706	17,660,590	99.84
2000	18,764,223	18,224,954	97.13	489,624	18,714,578	99.74
2001	22,048,516	21,137,409	95.87	648,251	21,785,660	98.81
2002	22,790,617	22,157,028	97.22	582,288	22,739,316	99.77
2003	24,204,066	23,331,506	96.40	740,800	24,072,306	99.46
2004	25,733,163	24,737,402	96.13	831,459	25,568,861	99.36
2005	27,422,108	26,439,347	96.42	843,573	27,282,920	99.49

(1) Includes operating, sanitation, Police and Fire Pension, Act 359, voted water and road levy, and long-term debt, but does not include penalty and interest on late payment of taxes

City of St. Clair Shores, Michigan

Tax Rate Limitations June 30, 2005

The City Charter provides tax rate limitations as follows:

Purpose	Rate (per \$1,000 of State Equalized Valuation)	Maximum Permitted Rate per \$1,000 of Taxable Valuation
General operating	\$ 8.00	\$ 6.4073
Voted street	1.00	0.9417
Voted water	1.00	0.9893

The City may levy taxes in excess of the above limitation pursuant to State law for the following purposes:

Purpose	Authority	Rate (per \$1,000 of Taxable Valuation)
Refuse collection and disposal	Act 298, P.A. of Michigan 1917, as amended	\$ 2.4026
Police and fire pension requirements	Act 345, P.A. of Michigan 1937, as amended	Amount required to make contribution
Community promotion	Act 359, P.A. of Michigan 1925, as amended	4.0 or \$50,000 (the lesser of the two)
Library	Act 164, P.A. of Michigan 1877, as amended	0.9404

In addition, Article IX, Section 6 of the State of Michigan Constitution permits the levy of millage in excess of the above for:

1. All debt service on tax-supported bonds issued prior to December 23, 1978 or tax-supported issues that have been approved by the voters for which the issuer has pledged its full faith and credit.
2. Operating purposes for a specified period of time provided that said increase is approved by a majority of the qualified electors of the local unit.

City of St. Clair Shores, Michigan

Population

2005 (Estimated)*	61,027
2000 U.S. Census	63,096
1990 U.S. Census	68,107
1980 U.S. Census	76,210
1970 U.S. Census	88,093

* Source: Southeast Michigan Council of Governments (SEMCOG)

City of St. Clair Shores, Michigan

Receipts of Gas and Weight Taxes Last Five Fiscal Years

<u>Fiscal Year Ended June 30</u>	<u>Gas and Weight Tax Monies Received</u>
2005	\$ 3,558,482
2004	3,684,015
2003	3,413,423
2002	3,398,808
2001	3,580,109

City of St. Clair Shores, Michigan

Computation of Legal Debt Margin June 30, 2005

Debt limit - 2004 assessed valuation		\$ 2,334,087,900
		x 10%
		<hr/>
Debt limit (10 percent of equalized value)		233,408,790
Gross direct debt	\$ 45,975,976	
Less:		
Michigan Transportation Fund Bonds	4,115,000	
Revenue Bonds	6,365,000	
TIFA Bonds	<u>2,365,000</u>	
Net direct debt		<hr/> 33,130,976
Legal debt margin		<u><u>\$ 200,277,814</u></u>
Nonexempt debt outstanding as percentage of 2005 State Equalized Valuation		<hr/> <hr/> 16.54

City of St. Clair Shores, Michigan

Debt Statement June 30, 2005

City Direct Debt	Gross	Self-supporting	Net	Net Debt (1)	
				Per Capita	Percentage of Taxable Valuation
Water and Sewer Revenue Bonds LTGO	\$ 2,050,000	\$ 2,050,000	\$ -		
MTF Bonds LTGO	4,115,000	4,115,000	-		
Revenue Refunding Bonds LTGO	3,465,000	3,465,000	-		
Building Authority Revenue Bonds LTGO	850,000	850,000	-		
Share of County-issued bonds	33,130,976	-	33,130,976		
Tifa Revenue Bonds	2,365,000	2,365,000	-		
Total direct debt	\$ 45,975,976	\$ 12,845,000	\$ 33,130,976	\$ 542.89	1.88

City Overlapping Debt (2)	Gross	City Share as Percentage of Gross	Net City Share	Net Debt (1)	
				Per Capita	Percentage of Taxable Valuation
South Lake School District	\$ 22,215,000	85.99	\$ 19,102,679		
Lakeview School District	31,745,000	100.00	31,745,000		
Lake Shore School District	27,845,000	100.00	27,845,000		
L'Anse Creuse School	152,595,000	0.08	122,076		
Macomb I/S/D	3,000,000	6.39	191,700		
Macomb - County at large	56,347,302	6.52	3,673,844		
Total overlapping debt	293,747,302		82,680,299	1,354.82	4.70
Total City direct and overlapping debt	\$ 339,723,278		\$ 115,811,275	\$ 1,897.71	6.58

(1) Based on the Southeastern Michigan Council of Governments 2005 estimated population of 61,027 and 2005 ad valorem taxable valuation of \$1,759,604,800

(2) Overlapping debt is the portion of other taxing units debt for which a City taxpayer is responsible in addition to debt of the City.

City of St. Clair Shores, Michigan

Revenue-sharing Payments from the State of Michigan General, Special Revenue, and Debt Service Funds Last Five Fiscal Years

Years Ended June 30	Revenue- sharing Payments
2001	\$ 11,481,170
2002	10,861,402
2003	10,615,651
2004	10,870,076
2005	9,941,755

City of St. Clair Shores, Michigan

General Fund Revenues from the State of Michigan Last Five Fiscal Years

Years Ended June 30	Revenue- sharing Payments
2001	\$ 7,248,971
2002	7,085,852
2003	6,629,285
2004	6,104,053
2005	6,328,309

City of St. Clair Shores, Michigan

Top Ten Largest Employers June 30, 2005

Company	Product/Service	Approximate Number of Employees
Fisher Dynamics	Manufacturing	793
St. John Health System	Medical center	390
Lake Shore Public Schools	Public school	384
South Lake Public Schools	Public school	346
City of St. Clair Shores	Government	280
Stahl's Inc.	Manufacturing	262
Lakeview Public Schools	Public school	252
NGS American	Medical benefits administration	146
First State Bank	Financial institution	101
Roy O'Brien Ford	Car dealership	94
	Total	<u><u>3,048</u></u>

Source: City of St. Clair Shores

City of St. Clair Shores, Michigan

Principal Taxpayers Year Ended June 30, 2005

Company Name	Product/Service	Real Assessed Valuation	Personal Assessed Valuation	Total Assessed Valuation	Percent of Total City Valuation
Detroit Edison	Public utility	\$ 592,600	\$ 16,128,500	\$ 16,721,100	0.72
400 Monroe Association	Property management	15,520,700	134,500	15,655,200	0.67
Jefferson Beach Marina	Marina/Boat sales	8,350,800	652,800	9,003,600	0.39
Fisher Dynamics	Auto parts manufacturer	5,597,500	3,271,100	8,868,600	0.38
Consumers Energy	Public utility	105,200	7,130,500	7,235,700	0.31
St. John Health System	Health care	3,819,500	1,906,200	5,725,700	0.25
SSC Associates	Property management	4,834,500	-	4,834,500	0.21
North Shore Associates	Property management	4,670,000	-	4,670,000	0.20
Michigan Harbor Marina	Marina	3,719,100	123,600	3,842,700	0.16
Roy O'Brien	Automobile dealership	3,039,200	280,600	3,319,800	0.14
OTR/Midland Realty	Property management	3,254,800	-	3,254,800	0.14
Maple Park Ltd.	Property management	3,153,800	-	3,153,800	0.14
First State Bank	Bank	3,137,300	-	3,137,300	0.13
Farmer Jack/Bormans	Grocery store	2,589,600	474,800	3,064,400	0.13
James/Charles Babcock	Property management	2,641,300	-	2,641,300	0.11
Shores Professional Building	Property management	2,580,000	-	2,580,000	0.11
City of Grosse Pointe Woods	Municipality	2,484,800	-	2,484,800	0.11
Walgreens	Pharmacy chain	2,165,400	266,800	2,432,200	0.10
Stahl's Incorporated	Light manufacturing	1,324,200	984,500	2,308,700	0.10
Kardon Investments/ Don Gooley	Automobile dealership	2,158,000	114,500	2,272,500	0.10
Total		<u>\$ 75,738,300</u>	<u>\$ 31,468,400</u>	<u>\$ 107,206,700</u>	<u>4.60</u>

City of St. Clair Shores, Michigan

Water Sold vs. Water Purchased

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Purchased (I)</u>	<u>Sold (I)</u>
1996	340,345	282,730
1997	303,249	279,359
1998	310,013	272,140
1999	310,103	286,239
2000	299,221	276,499
2001	282,408	256,197
2002	287,550	260,474
2003	329,918	262,300
2004	301,467	266,265
2005	334,315	239,213

(I) Unit = 1,000 metered cubic feet (MCF)

City of St. Clair Shores, Michigan

Water Customers and Consumption

Type of User	Fiscal Year Ended June 30				
	2005	2004	2003	2002	2001
Number of Water Customers					
Residential	23,952	23,937	23,915	23,890	23,868
Commercial	<u>1,277</u>	<u>1,271</u>	<u>1,281</u>	<u>1,279</u>	<u>1,283</u>
Total	<u>25,229</u>	<u>25,208</u>	<u>25,196</u>	<u>25,169</u>	<u>25,151</u>
Water Consumption by Number of Units (1)					
Residential	227,252	252,952	249,184	247,450	243,676
Commercial	<u>11,961</u>	<u>13,313</u>	<u>13,116</u>	<u>13,024</u>	<u>12,521</u>
Total	<u>239,213</u>	<u>266,265</u>	<u>262,300</u>	<u>260,474</u>	<u>256,197</u>
Percent of Water Consumption by Category					
Residential	95%	95%	95%	95%	95%
Commercial	<u>5%</u>	<u>5%</u>	<u>5%</u>	<u>5%</u>	<u>5%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

(1) Unit = 1,000 metered cubic feet

City of St. Clair Shores, Michigan

Fiscal Years Ended June 30	Water		Sanitary Sewer	
	Per MCF	Percent Change	Per MCF	Percent Change
1996	14.87	3.55	17.91	-
1997	16.24	9.21	18.45	3.02
1998	16.91	4.13	19.11	3.58
1999	18.01	6.51	20.35	6.49
2000	16.82	(6.61)	19.16	(5.85)
2001	13.92	(17.24)	20.71	8.09
2002	15.20	9.20	21.35	3.09
2003	17.30	13.82	23.16	8.48
2004	19.07	10.23	26.12	12.78
2005	18.95	(0.63)	26.53	1.57

(1) Based on a non-lakefront residential lot

(2) Based on average consumption of 2.5 thousand cubic feet

History of Utility Rates

Storm Sewer			Operation and Maintenance			Average Quarterly Bill	
Per Quarter (1)	Percent Change	Billing Charge Per Quarter	Charge Per Quarter	Amount (2)	Percent Change		
5.00	2.04	\$ 3.00	\$ 0.49	\$ 90.44	1.54		
5.02	0.40	3.00	0.49	95.24	5.31		
5.02	-	3.00	0.49	98.56	3.49		
6.00	19.52	3.00	0.49	105.39	6.93		
6.00	-	3.00	0.49	99.44	(5.65)		
6.00	-	3.00	0.49	96.07	(3.39)		
6.00	-	3.00	0.49	100.87	5.00		
6.00	-	3.00	0.49	110.64	9.69		
7.35	22.50	3.00	0.49	123.82	11.91		
6.00	-	3.00	0.49	123.19	0.51		

City of St. Clair Shores, Michigan

Sewer Rates - Commercial and Industrial Users (I)

Meter Size	Fiscal Year Ended June 30				
	2005	2004	2003	2002	2001
5/8"	\$ 13.50	\$ 17.88	\$ 15.03	\$ 11.97	\$ 8.10
3/4"	20.22	26.85	22.53	17.97	12.12
1"	33.72	44.73	37.56	29.91	20.22
1-1/2"	74.16	98.40	82.62	65.82	44.49
2"	107.88	143.10	120.18	95.70	64.71
3"	195.54	259.38	217.86	173.46	117.30
4"	269.70	357.75	300.48	239.25	161.79
6"	404.58	536.64	450.72	358.89	242.67

(I) Commercial and industrial users pay this additional charge quarterly based on the size of their water meter

City of St. Clair Shores, Michigan

History of Residential Water and Sewer Rate Increases

	Average Quarterly Bill (1)	Percent Change
Effective 07/01/01	\$ 100.87	5.00
Effective 07/01/02	110.64	9.69
Effective 07/01/03	123.81	11.90
Effective 07/01/04	123.91	0.08
Effective 07/01/05	124.39	0.39

(1) Average monthly bill assumes approximately 2,500 metered cubic feet usage and 5/8" water meter.

City of St. Clair Shores, Michigan

Ten Largest Water and Sewer Customers Fiscal Year Ended June 30, 2005

Customer	Usage (1)	Percent of Total (2)	Revenue	Percent of Total (3)
Lakeshore Village	3,506	1.47	\$ 179,970	1.40
Shore Club	2,725	1.14	125,785	0.98
Williamsburg	1,728	0.72	82,955	0.65
Jankowski, Paul	1,522	0.64	71,297	0.55
Bon Secour	1,354	0.57	68,906	0.54
Woodbridge East	1,351	0.56	65,620	0.51
Northshore	1,339	0.56	63,781	0.50
Leisure Manor	1,226	0.51	57,221	0.45
Riviera Terrace	1,030	0.43	50,358	0.39
Butcher Boy	898	0.38	42,365	0.33
Total	16,679	6.98	808,258	6.30

(1) Unit = 1,000 metered cubic feet

(2) Based on the June 30, 2005 total water sales of 239,213 units

(3) Based on the June 30, 2005 operating revenue of \$12,856,078

City of St. Clair Shores, Michigan

Historical Net Earnings, Cash Flow, and Debt Service Coverage - Utility Fund Last Five Years

	Fiscal Year Ended June 30				
	2005	2004	2003	2002	2001
Operating revenues	\$ 12,848,164	\$ 13,604,184	\$ 12,726,697	\$ 11,385,239	\$ 10,291,508
Operating expenses	<u>14,505,646</u>	<u>13,610,242</u>	<u>13,476,849</u>	<u>11,806,257</u>	<u>10,300,008</u>
Operating loss	(1,657,482)	(6,058)	(750,152)	(421,018)	(8,500)
Other revenues	1,868,800	1,654,935	1,636,757	1,583,488	1,620,361
Other expenses	<u>(154,511)</u>	<u>(120,599)</u>	<u>(141,657)</u>	<u>(163,680)</u>	<u>(224,660)</u>
Net income	56,807	1,528,278	744,948	998,790	1,387,201
Plus:					
Depreciation	753,617	763,907	785,748	764,382	738,250
Interest expense	<u>80,091</u>	<u>120,599</u>	<u>141,657</u>	<u>163,680</u>	<u>183,651</u>
Cash available for debt service	<u>\$ 890,515</u>	<u>\$ 2,412,784</u>	<u>\$ 1,672,353</u>	<u>\$ 1,926,852</u>	<u>\$ 2,309,102</u>
Debt service (1)	\$ 191,282	\$ 212,610	\$ 459,315	\$ 454,530	\$ 453,815
Historical debt service coverage	4.70 x	11.35 x	3.64 x	4.24 x	5.09 x

(1) Includes principal and interest payments on all current and prior revenue bonds

City of St. Clair Shores, Michigan

Schedule of Bond Maturities

Year	Authority Bonds	Municipal Purchase Agreements	Revenue Bonds	Drain	MTF Bonds
2006	\$ 350,000	\$ 188,704	\$ 400,000	\$ 1,704,997	\$ 800,000
2007	395,000	161,403	425,000	1,748,184	355,000
2008	430,000	132,571	435,000	1,793,424	380,000
2009	455,000	92,375	440,000	1,844,901	395,000
2010	500,000	50,000	460,000	1,898,390	410,000
2011	530,000	-	475,000	1,962,695	425,000
2012	555,000	-	495,000	2,019,941	435,000
2013	-	-	510,000	2,091,318	450,000
2014	-	-	530,000	2,144,113	465,000
2015	-	-	555,000	2,213,889	-
2016	-	-	575,000	2,295,487	-
2017	-	-	215,000	2,361,505	-
2018	-	-	-	2,448,500	-
2019	-	-	-	2,532,258	-
2020	-	-	-	2,620,400	-
2021	-	-	-	1,450,579	-
Total	<u>\$ 3,215,000</u>	<u>\$ 625,053</u>	<u>\$ 5,515,000</u>	<u>\$ 33,130,581</u>	<u>\$ 4,115,000</u>

Debt History: There is no record of default.

Note: The difference between this schedule and the LTD footnote relates to unamortized deferred refunding cost and issue cost of \$526,949 as of June 30, 2005.

City of St. Clair Shores, Michigan

General Fund - Fund Balance Last Five Fiscal Years

<u>Fiscal Year Ended June 30</u>	<u>Fund Balance</u>
2005	\$ 12,346,111
2004	11,551,615
2003	10,560,799
2002	10,276,087
2001	10,435,959

City of St. Clair Shores, Michigan

**Federal Awards
Supplemental Information
June 30, 2005**

City of St. Clair Shores, Michigan

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Independent Auditor's Report

To the Honorable Mayor and City Council
City of St. Clair Shores, Michigan

We have audited the basic financial statements of the City of St. Clair Shores, Michigan for the year ended June 30, 2005 and have issued our report thereon dated September 26, 2005. Those basic financial statements are the responsibility of the management of the City of St. Clair Shores, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of St. Clair Shores, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 26, 2005

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Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and City Council
City of St. Clair Shores, Michigan

We have audited the financial statements of the City of St. Clair Shores, Michigan as of and for the year ended June 30, 2005 and have issued our report thereon dated September 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of St. Clair Shores, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of St. Clair Shores, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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To the Honorable Mayor and City Council
City of St. Clair Shores, Michigan

This report is intended solely for the information and use of the city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 26, 2005

Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and City Council
City of St. Clair Shores, Michigan

Compliance

We have audited the compliance of the City of St. Clair Shores, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The major federal programs of the City of St. Clair Shores, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of St. Clair Shores, Michigan's management. Our responsibility is to express an opinion on the City of St. Clair Shores, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of St. Clair Shores, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of St. Clair Shores, Michigan's compliance with those requirements.

In our opinion, the City of St. Clair Shores, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2005-1.

To the Honorable Mayor and City Council
City of St. Clair Shores, Michigan

Internal Control Over Compliance

The management of the City of St. Clair Shores, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of St. Clair Shores, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 26, 2005

City of St. Clair Shores, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity	Award Amount	Federal Expenditures
		Project/Grant Number		
U.S. Department of Housing and Urban Development - Direct programs - Community Development Block Grant:	14.218	N/A		
Program year 2002-B02-MC-26-0013			\$ 1,139,000	\$ 13,331
Program year 2003-B03-MC-26-0013			1,122,000	491,852
Program year 2004-B04-MC-26-0013			1,116,000	404,398
Total Community Development Block Grant				909,581
U.S. Department of Transportation - Passed through State of Michigan Department of Transportation - Federal Highway Administration	20.205	BHI0250-027 BHI0050-139 IMD0150-034 NH0250-025 STP0450025 STP0250030 STP0450035 STP0450026	30,703 6,726 26,891 6,100 967,288 239,070 1,219,972 56,323	30,703 6,726 26,891 6,100 967,288 239,070 1,219,972 56,323
Total U.S. Department of Transportation				2,553,073
Department of Homeland Security - Passed through the Michigan Department of State Police:				
Homeland Security Training Grant	97.004	N/A	39,137	38,714
Homeland Security Grant	97.004	N/A	153,063	83,434
State Homeland Security Grant	97.004	N/A	48,901	48,901
Total Department of Homeland Security				171,049
U.S. Department of Justice - Direct Programs:				
Local Law Enforcement Block Grant	16.592	N/A	11,801	11,801
Bullet Proof Vest Partnership Program	16.607	N/A	8,065	1,205
Total U.S. Department of Justice				13,006
Total federal awards				\$ 3,646,709

City of St. Clair Shores, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 1,078,381
Federal revenue reported as state and other revenue	13,006
Michigan Department of Transportation administered grant revenue not reported in basic financial statements	2,553,073
Deferred revenue not reported for the year ended June 30, 2005	<u>2,249</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 3,646,709</u></u>

City of St. Clair Shores, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of St. Clair Shores, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

Federal Program	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 18,667

City of St. Clair Shores, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes _____ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grant
20.205	Federal Highway Administration

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

City of St. Clair Shores, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

Reference Number	Findings
2005-1	<p>Program Name - Community Development Block Grant - 14.218</p> <p>Finding Type - Material noncompliance condition</p> <p>Criteria - In order to comply with CDBG regulations, the City should verify that its subrecipients completed the required audits.</p> <p>Condition - The City failed to inquire about and obtain required audit reports from subrecipients.</p> <p>Questioned Costs - None</p> <p>Context - The City failed to obtain, for all subrecipients, A-133 reports or acknowledgement that A-133 audit requirements do not apply.</p> <p>Cause/Effect - The City passed funding through to subrecipients without ensuring that the subrecipient received the required A-133 audit, if applicable.</p> <p>Recommendation - We recommend that the City contact all subrecipients on an annual basis in order to verify whether an A-133 audit is required. If a subrecipient requires an A-133 audit, the City should obtain and review the A-133 audit report.</p> <p>Grantee Response - The City will contact subrecipients on an annual basis and obtain and review all necessary audit reports or verification that an A-133 audit is not required.</p>

September 26, 2005

The Honorable Mayor and Members
of the City Council
City of St. Clair Shores
27600 Jefferson Avenue
St. Clair Shores, MI 48081

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of St. Clair Shores for the year ended June 30, 2005. In addition to our audit report, we offer the following comments and recommendations for your consideration:

OVERVIEW OF THE CITY'S FINANCIAL CONDITION

During the year ended June 30, 2005, General Fund revenues exceeded expenditures by approximately \$794,000 taking into account transfers to other funds. Fund balance at June 30, 2005 amounted to approximately \$12,346,000. Of this amount, \$5,409,000 is reserved for Post-employment Benefits, Sanitation and Street Improvement, \$4,544,000 is designated for current year carry-over expenditures and budget shortfalls and \$2,393,000 is undesignated. The undesignated portion represents approximately six percent of budgeted 2005-2006 expenditures, which is within the range typically expected by rating agencies.

During the 2004-2005 fiscal year, the City experienced only modest growth in property tax revenue and a reduction in State revenue sharing sources (as discussed below), however, most City departments were near or below budgeted expenditures. As a result, in comparison with the 2004-2005 budget, fund balance at June 30, 2005, is higher than anticipated. We compliment the City Council and administration for their success in planning and monitoring the budget.

The City continues to be faced with budgetary challenges. Many challenges, including further reductions in state shared revenue, are a direct result of the difficult economic period that has been experienced in the State of Michigan. Other challenges, such as limited ability to experience growth in property tax revenue, future capital equipment and infrastructure needs, and currently unfunded post-employment benefit obligations, are characteristics of the City and its physical framework. Use of the five-year financial forecasting model and a long-term capital plan has allowed the City to better predict the effects of revenue changes and what impact those changes have on the City's ability to provide services to citizens. It is important that the City maintains an adequate level of working capital and fund balance to meet financial challenges without affecting the level of services provided to citizens or the City's ability to fund future obligations.

STATE SHARED REVENUE

The budget for the State of Michigan's 2005-2006 fiscal year provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which equals the fiscal year 2004-2005 funding level. As such, no further reductions to revenue sharing below the current funding level have been proposed.

While it is good news that revenue sharing will be maintained at current levels, continued caution should be exercised when preparing and monitoring the City's budget. It is important to note that sales tax revenue would support an increase to total state shared revenue payments for fiscal years 2004-2005 and 2005-2006 of over \$500 million based on the formulas provided for in law and actual sales tax collections. This fact highlights the structural deficits in the State's General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As you are aware, state shared revenue accounts for approximately 16 percent of the City's total General Fund budget and is comprised of a constitutional and statutory portion. The table below details state shared revenue for the City over the past five years and projected funding levels for 2006, including the total decrease in state shared revenue experienced by the City since the 1999-2000 fiscal year:

Fiscal Year	Statutory	Constitutional	Total	Decrease from 2000
2000	\$2,721,414	\$4,616,783	\$7,338,197	\$ -
2001	3,057,868	4,094,438	7,152,306	185,891
2002	2,710,280	4,136,144	6,846,424	491,773
2003	2,380,915	4,206,169	6,587,084	751,113
2004	1,759,680	4,160,480	5,920,160	1,418,037
2005	1,595,862	4,259,768	5,855,630	1,482,567
2006	1,444,236	4,411,394	5,855,630	1,482,567

If the State were to consider additional cuts to revenue sharing, the City is potentially at risk for the amount of statutory revenue sharing (the constitutional portion cannot be modified without a change to the State's constitution). We will continue to update the City as developments occur with revenue sharing and the State's budget. In addition, updated information can be obtained from the State's website or by calling the Office of Revenue and Tax Analysis at 517.373.2697.

TRANSPORTATION FUNDING

The State of Michigan has indicated that it anticipates transportation related tax receipts to be approximately 3 to 4 percent lower than expected for the State's 2004-2005 fiscal year ending September 30, 2005. The lower tax receipts will likely result in reduced Act 51 revenue sharing payments for the City's Major and Local Streets Funds. Because of the difference in the City's and the State's fiscal years, the reduced Act 51 payments may also have an impact on the City's 2005-2006 fiscal year. We will keep the City informed as updated information is received from the Michigan Department of Treasury.

TAX REFORM

One of the centerpieces of the Governor's 2005-2006 proposed budget was significant reform of the Michigan Single Business Tax. The Governor's business tax reform proposal appeared to spare local governments from any negative impact of the changes and actually contained a provision to address a loophole in property tax assessments related to commercial property (the WPW Case). As of this date, there is no consensus in Lansing on the Governor's tax proposal and alternative proposals are being discussed in the Legislature. Therefore, the impact on local government from these potential changes cannot be determined. A key component to most of the tax restructuring proposals is a significant credit on personal property taxes paid by certain businesses. Many questions have arisen from these proposals such as who determines the property that qualifies for credit, how will local governments be reimbursed by the State for the lost tax revenue as is the stated intention, etc. Debate on these tax restructuring proposals will continue over the next several months.

The loophole involving the inconsistent treatment of the assessment of commercial property is commonly referred to as the "WPW Case" involving the City of Troy. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This method of assessing commercial property (known as the "occupancy method") has been used by assessors to give commercial property owners a break when occupancy of their property has decreased and then to restore the taxable value of the property consistent with previous levels when occupancy increases. There are two bills that have passed in the House (House Bills 5096 and 5097) that address this matter.

TAXING MUNICIPAL RECREATION OPERATIONS

During the State's fiscal year 2005-2006 budget discussions, a proposal was introduced to put certain municipal operations that are in competition with the private sector on an equal playing field by requiring them to pay certain state taxes paid by the private sector. The main target appears to be municipal golf course operations but other recreation operations, such as ice arenas, could become part of the scope. There have been hearings on the subject and it is not clear which direction this issue will take in the fall. We will update the City as this issue progresses in the coming months.

PERSONAL PROPERTY TAX

As you are aware, the State Tax Commission has revised the personal property tax tables for the transmission and distributions property for utility companies. If utilized, the modified tables would have caused significant reductions to the assessed taxable value of these properties. The changes were effective in 2000, however, the City, like many other communities, has elected to continue to assess these properties using the previous tables. This issue was the subject of a lawsuit brought by several

units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. The use of the new tables was upheld in the lawsuit and in a subsequent appeal by the local units of government. In addition, a related issue has arisen regarding the potential underreporting of self-constructed assets by certain utility companies. It is not certain at this time how the State Tax Commission will address this underreporting issue.

For the 2000 through 2004 tax years, the utility companies paid personal property taxes based on the new tables rather than the City assessed amount based on the old tables. The difference between the amount assessed and the amount paid totals approximately \$417,000 and the property tax revenue has been deferred pending a final outcome.

Furthermore, the utility companies have filed claims relating to personal property taxes paid in years before 2000. The utility companies are attempting to retroactively apply the new tables to the 1997 through 1999 tax years and obtain refunds from local taxing authorities. The estimated personal property taxes that are subject to the claims are approximately \$173,000 and an accrual of this amount has been recognized by the City. The resolution of the refund claims will likewise be dependent on the outcome of the lawsuit appeals. We will continue to keep the City updated as developments occur.

FUNDING OF POST-EMPLOYMENT BENEFIT OBLIGATIONS

As you are aware, the City provides post-employment benefits to retirees that are funded currently from the General Fund and the Police and Fire Pension millage. For the year ended June 30, 2005, the cost of these benefits amounted to approximately \$3,409,000 representing an increase of approximately 11 percent over the 2004 amount. The City has experienced post-employment health care cost increases of 10 to 20 percent over the past several years and this annual cost is expected to grow as the average age of the City's workforce and the number of former employees eligible for post-employment benefits increases.

The City has established the Police and Fire Retiree Health Care Fund to begin to set aside resources to fund these obligations. This fund was established in accordance with The Public Employee Health Act of 1999 (P.A. 149 of 1999) which allows communities to invest assets set aside for post-employment benefit obligations in the same investment vehicles as pension funds (e.g. stocks, bonds, etc.). These investments provide a better means of achieving rates of return necessary to fund these long-term liabilities. As a reminder, for funds established in accordance with P.A. 149 of 1999, withdrawals from the fund are restricted solely for the payment of health care benefits and administrative expenses and an actuarial study is required every five years if the fund is not established on an actuarial basis.

It is our understanding that the City will soon begin to evaluate the post-employment benefit obligations on an actuarial basis, similar to pension obligations. Current accounting pronouncements do not require accounting for post-employment on an actuarial basis. The Governmental Accounting Standards Board, however, has recently issued a pronouncement (Statement No. 45) that includes provisions for measuring post-employment benefit liabilities and expenses on an actuarial basis. While this new standard will not need to be implemented by the City until the 2009 fiscal year, actuarial funding generally provides the best mechanism for funding obligations over long time periods and multiple budget cycles and we recommend that the City consider the benefits of this funding mechanism prior to implementing GASB statement No. 45.

In addition, it is our understanding that the City expects to apply for the federal subsidy available under the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The subsidy is offered to those employers who provide prescription drug benefits to retirees that are equivalent to those offered under Part D of the Medicare Act.

CREDIT CARD POLICY

Credit cards are used by the City as a matter of convenience to make small purchases that otherwise would be made from a petty cash fund. The use of credit cards can have a positive effect on internal control because it limits the number of transactions that would otherwise be handled in cash. However, because of the relative ease for which credit cards could be used for unauthorized purposes, State law (P.A. 266 of 1995) requires that a policy be adopted by the City Council that governs the use of credit cards by City employees. The policy is required to include provisions for (1) employees responsible for monitoring credit card use and compliance with the City's policies; (2) minimum documentation guidelines for purchases made with credit cards; and (3) the establishment of internal controls to monitor the use of credit cards. While the City has not adopted a policy governing the use of credit cards prior to year-end, it is our understanding that a policy will be adopted in the immediate future. We recommend that such a policy be adopted in order to comply with State law.

UTILITY OPERATIONS

During our audit of the Utility Fund's operations, it was noted that the fund experienced a "water loss" of approximately 28 percent during the year. A water loss is calculated by comparing the difference between the amount of water that is purchased from the City of Detroit and the amount that is sold to customers. Water losses can be the result of many factors, including leaks in the system, faulty meters, water main breaks, and other issues. Historically, water losses have averaged between 10 to 15 percent annually. It is our understanding that the City has engaged a firm to study the water loss situation to determine the potential causes.

We would like to thank the Mayor and City Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC



David V. Grubb